SPICER & PEGLER'S

BOOK-KEEPING AND ACCOUNTS.

FIFTH EDITION.

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

http://www.archive.org/details/bookkeepingaccou00spicuoft

BOOK-KEEPING AND ACCOUNTS.

BY THE SAME AUTHORS

By SPICER and PEGLER.

PRACTICAL AUDITING. (Third Edition.)
AUDIT PROGRAMMES. (Fifth Edition.)
UNDERWRITERS' ACCOUNTS. (Second Edition.)
TABLE "A": A COMPARATIVE ANALYSIS. (Third Edition.)
EXCESS PROFITS DUTY. (Fifth Edition.)
EXAMINATION NOTE BOOK FOR ACCOUNTANT STUDENTS. (Fifth Edition.)
PRACTICAL BOOK-KEEPING AND COMMERCIAL KNOWLEDGE. (Second Edition.)
INCOME TAX IN RELATION TO ACCOUNTS. (Sixth Edition.)

By ERNEST EVAN SPICER, F.C.A.

THE MONEY MARKET IN RELATION TO TRADE AND COMMERCE. (Second Edition.)
THE ACCOUNTS OF AN EXECUTOR. (Fifth Edition.)
INTERNAL CHECK IN RELATION TO A MANUFACTURER'S BUSINESS. (Third Edition.)
RESERVES, ANNUITIES AND SINKING FUNDS. (Third Edition.)
DISSOLUTION, AMALGAMATION AND RECONSTRUCTION ACCOUNTS. (Third Edition.)
DIVISIBLE PROFITS AND DIVIDENDS.
THE EXPORTATION OF BRITISH CAPITAL.
INCOME TAX, EXCESS PROFITS DUTY AND CORPORATION PROFITS TAX.

By ERNEST C. PEGLER, F.C.A.

SOME NOTABLE FRAUDS IN ACCOUNTS. (Third Edition.)
AN AUDIT OF TRUST ACCOUNTS.
STOCK EXCHANGE TRANSACTIONS.
THE PRINCIPLES OF AUDITING. (Second Edition.)
COMPARATIVE AND INTERIM ACCOUNTS.

By RANKING, SPICER and PEGLER.

RIGHTS AND DUTIES OF LIQUIDATORS, TRUSTEES AND RECEIVERS. (Twelfth Edition.)
EXECUTORSHIP LAW AND ACCOUNTS. (Fifth Edition.)
MERCANTILE LAW. (Third Edition.)
PARTNERSHIP LAW. (Second Edition.)
ARBITRATION AND AWARDS. (Third Edition.)
COMPANY LAW. (Third Edition.)
DEEDS OF ARRANGEMENT. (Second Edition.)
BANKRUPTCY AND DEEDS OF ARRANGEMENT ACT, 1913. (Second Edition.)
AGENCY AND BAILMENTS. (Fourth Edition.)
LAW OF CONTRACT. (Sixth Edition.)
BILLS OF EXCHANGE. (Fifth Edition.)
SALE OF GOODS
PARTNERSHIP ARTICLES. (Seventh Edition.)

By RANKING and SPICER.

COMPANY LAW. (Third Edition.)

EcC
S7543b

BOOK-KEEPING

AND

ACCOUNTS.

BY

ERNEST EVAN SPICER, F.C.A.,

AND

ERNEST Charles PEGLER, F.C.A.,

of the Firm of SPICER & PEGLER, Chartered Accountants, 1, Mansion House Street, E.C.2.

FIFTH EDITION.

20s. NET.

180947.
1. 6. 23.

LONDON:
H. FOULKS LYNCH & CO., LTD., 17, IRONMONGER LANE, E.C.2.

1920.

[*All rights reserved.*]

b

LONDON:
WATERLOW & SONS LIMITED,
WATERLOW HOUSE, BIRCHIN LANE, E.C.3.

PREFACE TO FIFTH EDITION.

THE large demand for this work has necessitated a fresh Edition, and we have taken the opportunity of thoroughly revising the Text, and bringing it completely up to date.

ERNEST EVAN SPICER.

ERNEST C. PEGLER.

Mansion House Street, E.C.2,

December, 1920.

TABLE OF CONTENTS.

CHAPTER I.

SINGLE AND DOUBLE ENTRY.

CHAPTER II.

CASH BOOKS, &c.

CHAPTER III.

THE JOURNAL.

CHAPTER IV.

DEPRECIATION, RESERVES, SINKING FUNDS, &c.

CHAPTER IV. (*continued*).

DEPRECIATION, RESERVES, SINKING FUNDS, &c. (*continued*).

CHAPTER V.

GOODS ON SALE OR RETURN, CONSIGNMENT ACCOUNTS, &c.

Chapter VI.

BILLS OF EXCHANGE, PROMISSORY NOTES, &c.

Chapter VII.

PARTNERSHIP ACCOUNTS.

CHAPTER VII. (*continued*).

PARTNERSHIP ACCOUNTS (*continued*).

CHAPTER VII. (*continued*).

PARTNERSHIP ACCOUNTS (*continued*).

CHAPTER VIII.

COMPANY ACCOUNTS.

CHAPTER VIII. (*continued*).

COMPANY ACCOUNTS (*continued*).

Chapter VIII. (*continued*).

COMPANY ACCOUNTS (*continued*).

Chapter IX.

TOTAL ACCOUNTS AND SECTIONAL BALANCING.

CHAPTER X.

DEPARTMENTAL ACCOUNTS, BRANCH ACCOUNTS, AND FOREIGN EXCHANGE.

CHAPTER XI.

COST ACCOUNTS.

CHAPTER XI. (*continued*).

COST ACCOUNTS (*continued*).

CHAPTER XII.

THE DOUBLE ACCOUNT SYSTEM.

CHAPTER XIII.

BANKRUPTCY, LIQUIDATION, AND RECEIVERSHIP ACCOUNTS.

CHAPTER XIII. (*continued*).

BANKRUPTCY, LIQUIDATION, AND RECEIVERSHIP ACCOUNTS (*continued*).

CHAPTER XIV.

MISCELLANEOUS ACCOUNTS.

CHAPTER XIV. (*continued*).

MISCELLANEOUS ACCOUNTS (*continued*).

CHAPTER XV.

INTERNAL CHECKS.

CHAPTER XV. (*continued*).

INTERNAL CHECKS (*continued*).

SYNOPSIS OF CHAPTER I.

SINGLE AND DOUBLE ENTRY.

§ 1.—The Theory of Double Entry.

2.—The Theory of Single Entry.

3.—The Advantages of Double Entry over Single Entry.

4.—The Various Kinds of Ledger Accounts.

(*a*) Personal Accounts.
(*b*) Impersonal Accounts.
(*c*) Nominal Accounts.
(*d*) Real Accounts.

5.—The Ascertainment of Profits under Single Entry.

6.—The Conversion of a Set of Books from Single Entry to Double Entry at a given date.

7.—The Conversion of Single Entry to Double Entry from one Period to another.

(*a*) By Analysis.
(*b*) By Total Accounts.

8.—The Distinction between Trading, Profit and Loss, and Appropriation Accounts.

9.—The Distinction between a Receipts and Payments Account and an Income and Expenditure Account.

10.—The various classes of Assets.

(*a*) Fixed Assets.
(*b*) Floating Assets.
(*c*) Wasting Assets.
(*d*) Fictitious Assets.

11.—Form of Balance Sheet.

12.—The Distinction between Capital and Revenue.

13.—The Accounts of a Sole Trader.

A

CHAPTER I.

SINGLE AND DOUBLE ENTRY.

§ 1.—The Theory of Double Entry.

The theory of Double Entry is *not* that for every debit there must be a credit, and *vice versâ*. That is a result of the system. Double Entry is that system of Book-keeping which takes advantage of the fact that every transaction that can be recorded in terms of account has two aspects: the one involving the receiving of a benefit by one account or accounts, and the other the yielding of that benefit by another account or accounts. The account that receives the benefit is debited, the account that yields the benefit credited; and so one gets as a result a debit for every credit.

It should be borne in mind that the yielding and receiving both take place in the same set of books, and refer to accounts and not to persons. For example: if A. B. & Co. receive cash from their debtor Jones, in A. B. & Co.'s books, Cash Account is debited, because it receives the benefit of the transaction, and Jones' Account is credited, because that account yields the benefit. If A. B. & Co. desire to write off depreciation, Depreciation Account will be debited and the Asset Account credited, and the same rule can be applied to every transaction. A complete grasp of the essential principles that underlie Double Entry is absolutely necessary before any real progress can be made in the study of the Science of Accounts.

As a result of the fact that every transaction is recorded from both points of view under Double Entry, a complete record of the impersonal aspects of all the transactions during a given period is obtained in addition to a record of the personal aspects.

The Double Entry system of Book-keeping is applicable to all classes of businesses, since every transaction involving money or money's worth possesses two aspects, and this system is the only one under which both can be properly recorded.

§ 2.—The Theory of Single Entry.

Single Entry only recognises the personal aspect of transactions, and as a result those not possessing such aspect are left entirely unrecorded; consequently, the only books kept under strict Single Entry are personal ledgers. In practice, however, one usually finds a Cash Book in addition, though it is often merely a memorandum book.

§ 3.—The advantages of Double Entry over Single Entry.

As the result of the fact that a debit is made for every credit, and that the impersonal aspects of all transactions are recorded under Double Entry, that system affords the following advantages over Single Entry:—

(1) If all postings are complete at any given date, a list of the balances standing on the books can be drawn out. This list is called a *Trial Balance*. Since every debit should have a credit, the total of the debit balances should equal the total of the credit balances, and if this is so, the books may be taken to be arithmetically correct, apart from the possibility of compensating errors.

(2) Since the impersonal aspects of all transactions are recorded, those representing profit or loss during a given period can be collected together in a classified form, the excess of the total credits over the total debits representing the profit for the period, or the excess of the total debits over the total credits representing the loss. Consequently, it can be seen at a glance in what manner the profit or loss has been arrived at, and the various items in the account, which is usually called the Profit and Loss Account, can be compared with those of previous periods, so that the cause of the rise or the fall in profits can be ascertained.

(3) The arithmetical correctness of the balance of the Profit and Loss Account can be proved, apart from compensating errors, by the preparation of a *Balance Sheet*. This may be defined as a classified summary of the balances remaining open in a set of books after the collection of the nominal balances into one account, and including the balance of that account, so arranged, as to show the assets upon the

right-hand side, and the liabilities upon the left. The usual definition of a Balance Sheet as a statement of liabilities and assets is incomplete, as in many cases items are included on each side which cannot be described either as liabilities or assets.

(4) Owing to the fact that the books are subject to arithmetical test, the risk of fraud or its non-discovery is considerably lessened.

None of the above results can be obtained under Single Entry.

It must be pointed out, however, that a trial balance will not disclose compensating errors, and errors of omission and principle.

§ 4.—The various kinds of Ledger Accounts.

Ledger accounts may be divided into four classes—

(*a*) Personal.
(*b*) Impersonal.
(*c*) Nominal.
(*d*) Real.

(a) Personal Accounts.

These Accounts record dealings with persons.

(b) Impersonal Accounts.

These record the aspect of transactions as they affect the business, and not as they affect persons.

(c) Nominal Accounts.

These are Impersonal Accounts relating to profit or loss, *e.g.* Sales, Salaries, Discounts.

(d) Real Accounts.

These are Impersonal Accounts relating to assets, *e.g.* Cash, Freehold Property, Plant and Machinery.

All debit balances may be said to represent in effect either assets, expenses or losses; and all credit balances, liabilities, receipts or profits.

§ 5.—The ascertainment of Profits under Single Entry.

The *Capital* of an individual or a private firm is the term employed to signify the excess of assets over liabilities at a given date. It is obvious that if the capital at the close of a certain period, after the proper adjustment of withdrawals and additions, exceeds the capital at the commencement of that period, the excess will represent profit made during that period; and if there is a decrease, the decrease will represent loss. This is the principle upon which profit or loss is ascertained under Single Entry.

In order to ascertain the capital at any given date, a *Statement of Affairs* must be prepared. Schedules of debtors and creditors must be extracted from the personal ledgers, the creditors' balances being agreed with statements; the bank balance will be agreed with the pass book, and the cash-in-hand counted; stock will be taken; assets, such as Freehold Property and Plant, must be valued or estimated; and a schedule made of creditors for loans and of all creditors not appearing in the Bought Ledger, including outstanding expenses such as rent, &c., accrued to date. All known assets and liabilities being now obtained, the former will be set out on the credit side of the Statement of Affairs, and the latter on the debit, the difference—representing capital or deficiency, as the case may be—being inserted to close the account.

To ascertain profit during a given period, such a statement as the above must be drawn out at the commencement of the period, and a similar statement at the close. This will give the opening and closing capitals respectively. Assuming there have been no drawings or additions to capital in the meantime, the excess of the closing capital over the opening will represent the profit made during the period, the capital having increased to that extent. If the closing capital is less than the opening, the decrease will represent loss. Any drawings made during the period must be added to the closing capital, since had they not taken place the assets would have been greater to that extent; and any additions to capital during the period must be deducted.

ILLUSTRATION—

J. Jones drew out his last Statement of Affairs at 31st December, 1918, as follows :—

STATEMENT OF AFFAIRS, 31st December, 1918.

	£ s. d.		£ s. d.
To Creditors	6,000 0 0	By Office Furniture	500 0 0
,, Bills Payable	500 0 0	,, Stock	2,000 0 0
,, Capital Account—being excess of assets over liabilities at this date	3,000 0 0	,, Debtors	4,500 0 0
		,, Bills Receivable	1,000 0 0
		,, Cash	1,500 0 0
	£9,500 0 0		£9,500 0 0

On 31st December, 1919, he finds his liabilities to be: Creditors £4,500, Bills Payable £700. And his assets: Office Furniture £450, Stock £1,500, Debtors £5,300, Bills Receivable £700, Cash £800. His drawings during that period have amounted to £450. What profit has he made ?

STATEMENT OF AFFAIRS, 31st December, 1919.

	£ s. d.		£ s. d.
To Creditors	4,500 0 0	By Office Furniture	450 0 0
,, Bills Payable	700 0 0	,, Stock	1,500 0 0
,, Capital Account—being excess of assets over liabilities at this date	3,550 0 0	,, Debtors	5,300 0 0
		,, Bills Receivable	700 0 0
		,, Cash	800 0 0
	£8,750 0 0		£8,750 0 0

	£ s. d.
Capital 31st December, 1919	3,550 0 0
Add Drawings for the year	450 0 0
	4,000 0 0
Less Capital 31st December, 1918	3,000 0 0
Net Profit for year	£1,000 0 0

In cases where there are two or more partners, and it is required to prepare accounts by Single Entry, introducing interest on capital and similar adjustments, it is convenient to draw out a Statement of Profit, showing on the liability side the creditors, and the capitals at the commencement of the period, adding to, or deducting from, such capitals any additions thereto or deductions therefrom. On the credit side will be placed the assets, together with the drawings on current account of each partner. These drawings are added for the reason that they are in anticipation of profits, and had they not taken place the assets would have been correspondingly greater. The balance of the statement will then, if a credit, represent profit, and if a debit, loss. Such balance having been brought down, interest on capital and partners' salaries (if any)

should be charged, and the balance divided up between the partners in the proportions in which they are entitled to share profits or losses.

A Statement of Affairs should then be drawn up in exactly the same form as an ordinary Balance Sheet, showing the final balance to the credit of each partner after the adjustment of drawings, interest, salaries, profit, &c.

An illustration of this will be found in Chapter VII., Section 4, dealing with Partnership Accounts.

§ 6.—The conversion of a set of books from Single Entry to Double Entry at a given date.

A Statement of Affairs must be prepared, and journalised in the manner described in Section 7, and shown in the Illustration. The various assets and liabilities will be posted to their respective accounts in the Private Ledger, with the exception of the cash, which will be posted as a commencing balance in a new Cash Book provided with Discount columns. It will generally be found advisable to open new Bought and Sold Ledgers, the opening balances in which should agree with the totals shown in the Journal. Bought and Sold Day Books, Returns and Allowances Books, both Inwards and Outwards, and Bills Receivable and Payable Books should be opened.

Instructions should be given that no entries should be made in the Ledgers direct without having previously passed through a book of first entry. The system of accounts will then have been placed on a Double Entry basis.

§ 7.—The conversion of Single Entry to Double Entry from one period to another.

(a) By Analysis.

It has been shown that Single Entry Book-keeping only deals with Personal Accounts, and consequently to convert the system to Double

entry for a given period it is necessary to raise the Impersonal Accounts required by the latter system, and to transfer from Personal Accounts to Impersonal Accounts any items erroneously recorded in the former.

In practice it is generally found that where Single Entry is in use the books as a whole are in a state of confusion, and that no proper Statement of Affairs has ever been prepared. In such cases it is practically impossible to arrive at anything but an estimated result, and the first Balance Sheet prepared after the conversion to Double Entry is consequently not very satisfactory. But if the books have been kept properly by Single Entry, and proper Statements have been regularly prepared, it is quite possible to get highly satisfactory results, and further, to prove the profit as shown by the Statement of Affairs under Single Entry by the Profit and Loss Account prepared after the conversion of the books into Double Entry.

Presuming therefore that the books have been properly kept under the Single Entry system, and proper Statements have been regularly drawn up, the process to convert the books of John Jones from Single Entry into Double Entry, from 1st January, 1919, to 31st December, 1919, would be as follows :—

(1) The Statement of Affairs dated 31st December, 1918, would be produced, and a Journal entry made recording the items in this Statement, and these would be posted to a private Ledger which would now have to be opened. The Journal entry would be :

Sundries—Dr.

To Sundries—

debiting the various assets and crediting the liabilities and capital to separate accounts. This gives a starting point, and what remains to be done is to complete the Double Entry of the transactions of the particular year under review.

(2) Assuming no subsidiary books have been kept, the Sales Ledger will have to be carefully analysed, and from the analysis the impersonal aspect of the transactions recorded therein can be obtained in total.

On the Debit side of the Ledger will be found :—

(*a*) The opening balances (which should agree with the figure shown in the opening Statement of Affairs).
(*b*) Sales.
(*c*) Special items, *e.g.* Dishonoured Bills, Transfers, &c.
(*d*) Total.

On the Credit side of the Ledger will be found :—

(*a*) Cash received from Debtors.
(*b*) Discount Payable.
(*c*) Returns Inwards and Allowances.
(*d*) Bills Receivable.
(*e*) Special items, *e.g.* Bad Debts, Transfers, &c.
(*f*) Closing Balances.
(*g*) Total.

The analysis sheets should be ruled to record the above particulars, and the cross-casting of the columns will not only test the analysis, but will also prove the casting of the Ledger itself.

These items will be posted to the credit and debit of the respective Impersonal Accounts, and also to a total Debtors' Account.

(3) The Bought Ledger will be analysed in a similar way.

From the Credit side of the Ledger will be obtained :—

(*a*) The opening balances (which should agree with the figure shown in the opening Statement of Affairs).
(*b*) Purchases.
(*c*) Special items.
(*d*) Total.

On the Debit side of the Ledger will be found :—

(*a*) Cash paid to Creditors.
(*b*) Discount Receivable.
(*c*) Returns outwards and Allowances.

(*d*) Bills Payable.
(*e*) Special items (if any).
(*f*) Closing balances.
(*g*) Total.

These items will be posted to the debit and credit of their respective accounts, and also to a Total Creditors' Account.

(4) The Cash Book, assuming one has been kept, should be called over with the Bank Pass Book, and a reconciliation between the Cash and Bank Balances made.

(5) It will be found that many items appearing in the Cash Book have been left unposted, and many that have been posted have been posted to Personal instead of Impersonal Accounts. The former will be posted to Impersonal Accounts in the ordinary way, and the latter will be transferred to Impersonal Accounts. An illustration of this would be salaries posted to the debit of a Personal Account instead of to Salaries Account, or rent posted to the debit of the Landlord's Account instead of Rent Account. It will be found necessary to exercise considerable care in dealing with the cash postings to ensure accuracy of treatment.

Where the Cash Book is very incomplete, it will be found more convenient to analyse the receipts and payments, and raise a Total Cash Account, posting the various items therefrom to the respective accounts where necessary. Where no Cash Book has been kept, an analysis of the Bank Pass Book must be made in order to obtain the necessary particulars.

(6) The Double Entry will now be complete, and a Trial Balance can be got out to test the clerical accuracy of the work.

(7) The necessary reserves for bad debts, depreciation, accrued expenses, &c., and the adjustments for interest on capital, interest on loans and the like, should then be made.

(8) A final Trial Balance, Profit and Loss Account and Balance Sheet can then be prepared.

ILLUSTRATION—

Assuming the opening and closing figures to be the same as in the previous Illustration, the Journal entry embracing the opening Statement of Affairs would be as follows :—

JOURNAL.

			£	s.	d.	£	s.	d.
1919. Jan. 1	Sundries— To Sundries.	Dr.						
	Office Furniture		500	0	0			
	Stock		2,000	0	0			
	Debtors		4,500	0	0			
	Bills Receivable		1,000	0	0			
	Cash		1,500	0	0			
	Creditors					6,000	0	0
	Bills Payable					500	0	0
	J. Jones : Capital Account					3,000	0	0
	Being Assets and Liabilities as at this date.							
			£9,500	0	0	£9,500	0	0

The following are the analyses of the personal and cash transactions :—

SALES LEDGER ANALYSIS—Debit side.

Opening Balances.			Sales.			Special Items.			Total		
£4,500	0	0	£15,000	0	0	£50	0	0	£19,550	0	0

SALES LEDGER ANALYSIS—Credit side.

Cash.			Discount.			Returns, &c.			Bills Receivable.			Special Items.			Closing Balances.			Total		
£11,000	0	0	£450	0	0	£200	0	0	£2,400	0	0	£200	0	0	£5,300	0	0	£19,550	0	0

SPECIAL ITEMS.

	£	s.	d.
Bad Debts	150	0	0
Transfer	50	0	0
	£200	0	0

BOUGHT LEDGER ANALYSIS—Credit side.

Opening Balances.			Purchases.			Total.		
£6,000	0	0	£10,000	0	0	£16,000	0	0

BOUGHT LEDGER ANALYSIS—Debit side.

Cash.			Discount.			Returns, &c.			Bills Payable.			Special Items.			Closing Balances.			Total.		
£8,500	0	0	£300	0	0	£150	0	0	£2,500	0	0	£50	0	0	£4,500	0	0	£16,000	0	0

Dr TOTAL CASH ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Balance	1,500	0	0	By Creditors	8,500	0	0
,, Debtors	11,000	0	0	,, Bills Payable	2.300	0	0
,, Bills Receivable	2,650	0	0	,, Drawings	450	0	0
				,, Wages	2,050	0	0
				,, Rents, &c.	250	0	0
				,, Salaries	400	0	0
				,, Travelling	100	0	0
				,, Sundry Expenses	300	0	0
				,, Balance	800	0	0
	£15,150	0	0		£15,150	0	0
To Balance	£800	0	0				

Complete the necessary posting, and prepare Trial Balance, Trading, and Profit and Loss Account and Balance Sheet. The closing stock is £1,500, and depreciation is to be provided on Office Furniture at 10 % per annum.

Dr. TOTAL DEBTORS ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Balance..	4,500	0	0	By Cash	11,000	0	0
,, Sales	15,000	0	0	,, Discount	450	0	0
,, Dishonoured Bill	50	0	0	,, Returns and Allowances	200	0	0
				,, Bills Receivable	2,400	0	0
				,, Bad Debts	150	0	0
				,, Transfer to Bought Ledger ..	50	0	0
				,, Balance	5,300	0	0
	£19,550	0	0		£19,550	0	0
To Balance	£5,300	0	0				

Dr **TOTAL CREDITORS ACCOUNT.** *Cr.*

	£	s.	d.		£	s.	d.
To Cash	8,500	0	0	By Balance	6,000	0	0
„ Discount	300	0	0	„ Purchases	10,000	0	0
„ Returns and Allowances	150	0	0				
„ Bills Payable	2,500	0	0				
„ Transfer from Sales Ledger	50	0	0				
„ Balance..	4,500	0	0				
	£16,000	0	0		£16,000	0	0
				By Balance	£4,500	0	0

Dr. **BILLS RECEIVABLE ACCOUNT.** *Cr.*

	£	s.	d.		£	s.	d.
To Balance	1,000	0	0	By Cash	2,650	0	0
„ Debtors	2,400	0	0	„ Debtors, dishonoured bill ..	50	0	0
				„ Balance	700	0	0
	£3,400	0	0		£3,400	0	0
To Balance..	£700	0	0				

Dr. **BILLS PAYABLE ACCOUNT.** *Cr.*

	£	s.	d.		£	s.	d.
To Cash	2,300	0	0	By Balance	500	0	0
„ Balance..	700	0	0	„ Creditors	2,500	0	0
	£3,000	0	0		£3,000	0	0
				By Balance	£700	0	0

TRIAL BALANCE, 31st December, 1919.

	£	s.	d.	£	s.	d.
Debtors	5,300	0	0			
Cash	800	0	0			
Bills Receivable	700	0	0			
Creditors				4,500	0	0
Bills Payable				700	0	0
Capital				3,000	0	0
Drawings	450	0	0			
Wages..	[illegible]	0	0			
Rent	[illegible]	0	0			
Salaries	400	0	0			
Travelling Expenses	100	0	0			
Sundry Expenses	[illegible]	0	0			
Discount Payable	[illegible]	0	0			
Returns Inwards	[illegible]	0	0			
Bad Debts	100	0	0			
Purchases	10,000	0	0			
Sales				11,000	0	0
Discount Receivable..				[illegible]	0	0
Returns Outwards				150	0	0
Stock at 1st Jan., 1919	2,000	0	0			
Office Furniture	[illegible]	0	0			
	£21,650	0	0	£21,650	0	0

Closing Stock £1,500.

Depreciation on Office Furniture at 10 % per annum.

TRADING AND PROFIT AND LOSS ACCOUNT for the year ending 31st December, 1919.

Dr. *Cr.*

		£ s. d.			£ s. d.
To Stock at 1st Jan., 1919 ..		2,000 0 0	By Sales	£15,000	
,, Purchases	£10,000		*Less* Returns	200	
					14,800 0 0
Less Returns	150		,, Stock 31st Dec., 1919 ..		1,500 0 0
		9,850 0 0			
,, Wages		2,050 0 0			
,, Gross Profit carried down..		2,400 0 0			
		£16,300 0 0			£16,300 0 0
To Rent, &c.		250 0 0	By Gross Profit brought down ..		2,400 0 0
,, Salaries		400 0 0	,, Discount Receivable		300 0 0
,, Travelling Expenses		100 0 0			
,, Sundry Expenses		300 0 0			
,, Discount Payable		450 0 0			
,, Bad Debts		150 0 0			
,, Depreciation		50 0 0			
,, Net Profit		1,000 0 0			
		£2,700 0 0			£2,700 0 0

Dr. BALANCE SHEET, 31st December, 1919. *Cr.*

		£ s. d.			£ s. d.
To Creditors		4,500 0 0	By Office Furniture	£500	
,, Bills Payable		700 0 0	*Less* Depreciation ..	50	
,, Capital Account—Balance					450 0 0
1st Jan., 1919	£3,000		,, Stock		1,500 0 0
Add Profit	1,000		,, Debtors		5,300 0 0
			,, Bills Receivable . ..		700 0 0
	4,000		,, Cash at Bank		800 0 0
Less Drawings ..	450				
		3,550 0 0			
		£8,750 0 0			£8,750 0 0

(b) By Total Accounts.

It is possible to raise a Trading and Profit and Loss Account and Balance Sheet from Single Entry Accounts by an analysis of the Cash Book only, since from the information which is given by Single Entry Books, and afforded by the analysis of the Cash Book, Total Accounts can be raised so that the figure of Sales and Purchases can be arrived at.

This system is not so correct as that which has been previously described, in which the whole of the books are analysed, since such items as Bad Debts, Allowances, &c., are not taken into consideration.

ILLUSTRATION—

T. Black, who keeps his books by single entry, instructs you to prepare his Balance Sheet as on 31st October, 1919, together with a Profit and Loss Account for the year ending on that date.

Upon analysing his Cash Book for that period you find the following, viz. :—

	£	s.	d.
Bank Balance, 1st November, 1918	400	0	0
Black's Drawings	750	0	0
Paid to Trade Creditors (including Bills Payable)	3,800	0	0
Wages	1,100	0	0
Salaries	500	0	0
Other Business Expenses	1,325	10	0
Received from Trade Debtors (including Bills Receivable) ..	5,364	10	0
Bank Balance, 31st October, 1919 (Overdraft)	150	0	0
Cash in hand do.	20	0	0
Receipts from Cash Sales	1,581	0	0

Black's Capital at 1st November, 1918, was £5,000.

Particulars of his other Assets and Liabilities are as follows, viz. :—

	1st Nov., 1918.			31st Oct., 1919		
	£	s.	d.	£	s.	d.
Stock on hand	1,980	0	0	2,500	0	0
Debtors	2,500	0	0	1,935	10	0
Creditors	2,200	0	0	700	0	0
Bills Receivable	500	0	0	700	0	0
Business Premises	2,000	0	0	2,000	0	0
Bills Payable	300	0	0			
Office Furniture	120	0	0	120	0	0

Reserve £150 for Doubtful Debts, and write off 5 per cent. depreciation on Business Premises and Office Furniture.

Dr. CASH ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Balance	400	0	0	By Drawings	750	0	0
" Debtors and Bills Receivable	5,364	10	0	" Creditors and Bills Payable ..	3,800	0	0
" Cash Sales	1,581	0	0	" Wages	1,100	0	0
" Bank Overdraft	150	0	0	" Salaries	500	0	0
				" Business Expenses	1,325	10	0
				" Cash in hand	20	0	0
	£7,495	10	0		£7,495	10	0
To Balance	£20	0	0	By Balance	£150	0	0

Dr. TOTAL DEBTORS AND BILLS RECEIVABLE ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Balance	3,000	0	0	By Cash	5,364	10	0
" Sales	5,000	0	0	" Balance	2,635	10	0
	£8,000	0	0		£8,000	0	0
To Balance	£2,635	10	0				

Dr. TOTAL CREDITORS AND BILLS PAYABLE ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Cash	3,800	0	0	By Balance	2,200	0	0
" Balance	700	0	0	" Purchases	2,300	0	0
	£4,500	0	0		£4,500	0	0
				By Balance	£700	0	0

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST OCTOBER, 1919.

Dr.		£ s. d.			Cr. £ s. d.
To Stock at 1st November, 1918		1,980 0 0	By Cash Sales ..	.. £1,581 0 0	
" Purchases		2,000 0 0	" Credit Sales	.. 5,000 0 0	
" Wages		1,100 0 0			6,581 0 0
" Balance, being Gross Profit		4,001 0 0	" Stock at 31st October, 1919 ..		2,500 0 0
		£9,081 0 0			£9,081 0 0

		£ s. d.			£ s. d.
To Salaries		500 0 0	By Gross Profit . ..		4,001 0 0
" Business Expenses		1,325 10 0			
" Reserve for Doubtful Debts		150 0 0			
" Depreciation on Business Premises	£100 0 0				
" Depreciation on Office Furniture	6 0 0				
		106 0 0			
" Net Profit		1,919 10 0			
		£4,001 0 0			£4,001 0 0

BALANCE SHEET, 31ST OCTOBER, 1919.

Dr.	£ s. d.	£ s. d.		£ s. d.	Cr. £ s. d.
To Sundry Creditors ..	700 0 0		By Business Premises ..	2,000 0 0	
" Bank Overdraft	150 0 0		*Less* Depreciation ..	100 0 0	
		850 0 0			1,900 0 0
" Capital Account :— Black—			" Office Furniture ..	120 0 0	
			Less Depreciation ..	6 0 0	
Balance at 1 Nov., 1918	5,000 0 0				114 0 0
Add Profit	1,919 10 0		" Stock in hand		2,500 0 0
			" Sundry Debtors ..	1,935 10 0	
	6,919 10 0		*Less* Reserve for Doubtful Debts ..	150 0 0	
Less Drawings ..	750 0 0				
		6,169 10 0		1,785 10 0	
			" Bills Receivable ..	700 0 0	
					2,485 10 0
			" Cash in hand		20 0 0
		£7,019 10 0			£7,019 10 0

§ 8.—Distinction between Trading, Profit and Loss, and Appropriation Accounts.

The *Trading Account* is in reality the name given to the first, the Profit and Loss Account that given to the second, and the Appropriation Account that given to the third sections respectively of the one general summary of the nominal accounts relating to profits or losses during a given period.

The balance of the Trading Account is the gross profit on trading, and represents the difference between the selling price and the prime cost of the goods sold after the adjustment of the opening and closing stocks. In order to keep the percentage of gross profit on turnover (or sales) constant as between one period and another for purposes of

comparison, it is usual to charge to Trading Account only those items of prime cost which vary directly with the turnover, such as manufacturing wages. Other items which are in effect prime cost, such as Rent of Factory, Repairs to Plant, &c., but which do not vary directly with the turnover, will in such cases be charged to the Profit and Loss Account.

The Trading Account is debited with the value of the Stock at the commencement of the period and with the Purchases; and in the case of a Manufacturing business, with the prime cost charges which vary with the output. It is then credited with the Sales and with the value of the Closing Stock taken upon a proper basis.

The question of bringing in the Closing Stock is important. If the account dealt with quantities only, the Stock on hand at commencement plus the purchases would exactly equal the sales plus stock on hand at the close; but generally the Trading Account deals with values only, and not with quantities, though strictly the quantities are presumed to balance in the manner just indicated.

It is important as regards any trading business to correctly ascertain the value of stock on hand at the date of balancing. Particulars of the stock should be taken in a systematic manner, and a value placed upon each item at cost or market price, whichever is lower; the various items after being so valued on the sheets will be cast, and the total figure arrived at will represent the stock value for the purposes of the account.

Where it is possible to deal with quantities this should be done, the Bought and Sold Day Books and Returns Books being ruled so that quantities of each particular class of goods dealt in can be recorded, separate books being utilised for each department. From the information so arrived at the record of the quantities of the particular class of goods dealt in can be utilised for purposes of verifying stock on hand as shown by the Trading Account, and to check a Quantity Stock Account which should be also kept.

Where Quantity Stock Accounts are kept these will be memorandum records showing the quantity of each kind of goods on hand at the commencement of a period and the further quantities received since on one

side of the account; while on the other side all goods of that kind going out will be recorded. The record enables the quantity of the particular stock on hand to be immediately ascertained, and if proper arrangements are made for keeping the account it acts as a continuous check on the warehouse in addition to a check on the Stock-taking.

ILLUSTRATION—

The following is an example of the Trading Account of a Cotton Seed Department of a business:—

COTTON SEED TRADING ACCOUNT.

	Tons.	£ s. d.		Tons.	£ s. d.
To Stock on hand	15	116 5 0	By Sales	1,150	9,775 0 0
„ Purchases	1,200	9,600 0 0	„ Stock at close	65	536 5 0
„ Gross Profit..		595 0 0			
	1,215	£10,311 5 0		1,215	£10,311 5 0

The *Profit and Loss Account* will be credited with the balance of gross profit brought from the Trading Account, together with other items of profit, such as Rents Receivable, Discounts Receivable, Profit on Sale of Investments, &c., and will be debited with the expenses of distribution and of carrying on the business generally, the final balance representing the net profit or loss for the period under review.

The *Appropriation Account* will be credited with the balance brought forward from the last account (if any), together with the net profit for the period. The final balance will be divided up according to the particular circumstances of each case.

It should be pointed out, however, that there is no definite rule as to the division between the Trading and Profit and Loss Accounts, and each case must be considered on its own merits. Consequently, the above remarks can only be regarded from a general point of view. Sometimes a Manufacturing Account or Working Account is utilised either in substitution for, or in addition to, a Trading Account.

§ 9.—Distinction between a Receipts and Payments Account and an Income and Expenditure Account.

A *Receipts and Payments Account* is a classified summary of the cash transactions during a given period.

An *Income and Expenditure Account* is in effect the Revenue Account of an individual or a non-trading concern. It is a classified summary of the transactions relating to profit or loss during a given period.

A Receipts and Payments Account, therefore, being only a statement of cash, will commence with the opening and close with the closing cash balance, and will include all receipts and payments, whether relating to the period under review or not, and whether of a capital or revenue nature, provided they are actually received or paid during the period in question.

The Income and Expenditure Account, however, will only include revenue items relating to the actual period it covers, irrespective of whether the same are received or paid within the period or not, and will consequently exclude all items relating to previous or subsequent periods, and all capital items.

In a Receipts and Payments Account it is usual to show the receipts on the debit side and the payments on the credit side, as in the case of a Cash Book. In an Income and Expenditure Account the Profit and Loss form is more generally used, the income appearing on the credit and the expenditure on the debit side of the account.

The balance of a Receipts and Payments Account will represent either the cash in hand or overdrawn. The balance of an Income and Expenditure Account will represent either the excess of income over expenditure for the period, or *vice versâ*.

It cannot be too strongly pointed out that a Receipts and Payments Account is not a proper substitute for either an Income and Expenditure Account or any other form of Revenue Account, since the balance need not in any way indicate the result of the nominal transactions for the period.

In the case of a trading concern, although there may be a large cash balance at the end of the period, this may be due to capital receipts, or to fluctuations in debtors, creditors, stock, &c., and in effect a loss may have been sustained without the same being in any way disclosed.

Further items that have an important bearing on the result of the trading, such as reserves for bad debts, depreciation, &c., are wholly ignored.

Special kinds of Receipts and Payments Accounts are frequently prepared, as for example a Capital Receipts and Payments Account dealing with capital items only, or an Income Receipts and Payments Account dealing with revenue items only.

ILLUSTRATION—

The following is the Receipts and Payments Account for the Midland Bowling Club for the year ending 31st December, 1919 :—

RECEIPTS AND PAYMENTS ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 1919.

Receipts.	£ s. d.	Payments.	£ s. d.
To Balance, 1st January, 1919	12 10 6	By Rent	200 0 0
,, Entrance Fees	20 0 0	,, Stationery, Expenses, &c.	118 1 6
,, Subscriptions, 1918	7 0 0	,, Wages	205 0 0
,, ,, 1919	650 0 0	,, Capital Expenditure	150 0 0
,, ,, in advance, 1920	12 0 0	,, Repairs and Renewals	31 2 6
,, Locker Rents	20 0 0	,, Interest	80 0 0
,, Green Fees	112 10 0	,, Balance	49 16 6
	£834 0 6		£834 0 6
To Balance	£49 16 6		

Notes.

Locker rents, £2 referred to 1918, and £3 is still owing. Rent, £50 referred to 1918 and £50 is still owing. Stationery and Expenses, £12 1s. 6d. referred to 1918, still owing £14 3s. 9d. Subscriptions unpaid 1919, £18.

Make Out Income and Expenditure Account for the year ending 31st December, 1919.

THE MIDLAND BOWLING CLUB.

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 1919.

Dr. Expenditure.	£ s. d.	Income. *Cr.*	£ s. d.
To Rent	200 0 0	By Entrance Fees	20 0 0
,, Stationery Expenses Account	120 3 9	,, Subscriptions	668 0 0
,, Wages	205 0 0	,, Locker Rents	21 0 0
,, Repairs and Renewals	31 2 6	,, Green Fees	112 10 0
,, Interest	80 0 0		
,, Balance, being Excess of Income over Expenditure, for year 1919	185 3 9		
	£821 10 0		£821 10 0
		By Balance	£185 3 9

§ 10.—The various classes of Assets.

There are four classes of Assets, known respectively as Fixed, Floating, Wasting and Fictitious.

(*a*) *Fixed Assets* are those of a permanent nature, by means of which the business is carried on, and which are held for the purpose of earning income, and not for the purpose of sale, *e.g.* Land, Buildings, Plant, Leases, Goodwill.

(*b*) *Floating Assets* are those in which the business deals, and which are acquired for the purpose of sale, and the subsequent stages of the conversion of the same into cash, *e.g.* Stock, Book Debts, Cash.

(*c*) *Wasting Assets* are those of a fixed nature which are gradually consumed or exhausted in the process of earning income, *e.g.* a Mine, a Cemetery.

(*d*) *Fictitious Assets* is a term applied to items of expenditure not represented by present value. They may represent absolute losses not written off, but carried forward in the Balance Sheet, or expenditure of a deferred revenue nature the benefit of which is presumed to extend over a period of years. An example of the first is a debit balance of Profit and Loss, and of the second Preliminary Expenses.

§ 11.—Form of Balance Sheet.

In drawing up a Balance Sheet care should be taken to see that the assets are properly grouped under their respective classes, and sufficiently sub-divided to afford an outside observer a clear view of the state of affairs, which shall not misrepresent the true position of the concern. It is usual to start with the fixed assets, and follow on with the floating assets in their natural order of realization, though in some cases, particularly in banks, the reverse order is adopted.

Care should be exercised to separate tangible from intangible assets on the Balance Sheet. In this connection it should be noted that intangible assets are not necessarily fictitious, *e.g.* Goodwill, although intangible, is a fixed asset, assuming it is represented by actual value.

§ 12.—The distinction between Capital and Revenue.

Capital expenditure is that incurred for the purpose of creating or acquiring Fixed Assets by means of which to carry on the business, or incurred for the purpose of increasing the earning capacity of the business.

Revenue expenditure is that incurred for the purpose of carrying on the business and maintaining the Fixed Assets in a state of working efficiency.

Further consideration of the distinction between Capital and Revenue in connection with Renewals and Replacements will be found in Chapter IV.

§ 13.—The Accounts of a Sole Trader.

In preparing the Accounts of a Sole Trader the ascertained profit will be credited to the proprietor of the business. Frequently this will be carried to the Capital Account of the proprietor, but it is preferable to keep the Capital Account fixed, and deal with profits and drawings through a separate Current Account.

ILLUSTRATION—

Henry Williams commenced business on 1st February, 1920, with Cash at Bank £500. The following transactions took place during the month :—

1920.			£	s.	d.
Feb.	1.	Bought Goods from W. Martin	250	0	0
		Purchased Warehouse Fittings	40	0	0
,,	2.	Sold Goods to T. Crown	80	0	0
		Drew Cheque for Petty Cash	20	0	0
,,	3.	Paid W. Martin on Account	150	0	0
,,	4.	Sold Goods to W. Wilson	100	0	0
,,	5.	Received Cheque from T. Crown	77	0	0
		Allowed him Discount	3	0	0
,,	6.	Paid Wages	4	0	0

			£	s.	d.
Feb.	8.	Bought Goods for Cash	30	0	0
,,	9.	Sold Goods to L. Robinson	170	0	0
,,	10.	Purchased Goods from F. Pearson	130	0	0
,,	11.	Paid W. Martin in settlement	95	0	0
		Allowed Discount by him	5	0	0
,,	12.	Paid Carriage on Goods Purchased	2	0	0
,,	13.	Paid Wages	4	0	0
,,	14.	Bought Goods from W. Martin	150	0	0
,,	15.	,, ,, for Cash	40	0	0
,,	16.	Sold Goods to W. Wilson	180	0	0
,,	17.	W. Wilson paid on Account	200	0	0
,,	18.	Purchased Goods from H. Wood	75	0	0
,,	19.	Sold Goods for Cash	80	0	0
,,	20.	Paid Wages	4	0	0
,,	21.	Sent Cheque to H. Wood	72	0	0
		Allowed Discount by him	3	0	0
,,	22.	Sold Goods to T. Crown	130	0	0
,,	23.	Bought Goods from W. Martin	240	0	0
,,	24.	Bought Goods for Cash	73	0	0
,,	25.	Sent Cheque on Account to W. Martin	200	0	0
,,	26.	T. Crown paid on Account	100	0	0
,,	27.	Paid Wages	4	0	0
,,	28.	Paid Electric Lighting Account	5	0	0
		,, Rent	8	0	0
		H. Williams drew for personal use	15	0	0

Petty Cash Expenditure for the Month was—

	£	s.	d.
Purchases	£4	1	7
General Expenses	7	1	3
Carriage Outwards	3	2	0

Stock on Hand, £325.

Enter the above transactions into the proper books of Prime Entry and post to Ledger. Prepare Trial Balance, Trading and Profit and Loss Account and Balance Sheet.

Dr. Fo. 1. CASH BOOK. *Cr.*

1920.		Fo.	Discount.	Cash.	1920.		Fo.	Discount.	Cash.
			£ s. d.	£ s. d.				£ s. d.	£ s. d.
Feb. 1	To Capital A/c. ..	1		500 0 0	Feb. 1	By Warehouse Fittings ..	11		40 0 0
,, 5	,, T. Crown ..	14	3 0 0	77 0 0	,, 2	,, Petty Cash ..	12		20 0 0
,, 17	,, W. Wilson ..	15		200 0 0	,, 3	,, W. Martin ..	17		150 0 0
,, 19	,, Sales	3		80 0 0	,, 6	,, Wages ..	5		4 0 0
,, 26	,, T. Crown ..	14		100 0 0	,, 8	,, Purchases ..	4		30 0 0
					,, 11	,, W. Martin ..	17	5 0 0	95 0 0
					,, 12	,, Carriage ..	6		2 0 0
					,, 13	,, Wages ..	5		4 0 0
					,, 15	,, Purchases ..	4		40 0 0
					,, 20	,, Wages ..	5		4 0 0
					,, 21	,, H. Wood ..	19	3 0 0	72 0 0
					,, 24	,, Purchases ..	4		73 0 0
					,, 25	,, W. Martin ..	17		200 0 0
					,, 27	,, Wages ..	5		4 0 0
					,, 28	,, Lighting ..	7		5 0 0
					,, 28	,, Rent	8		8 0 0
					,, 28	,, Drawings ..	2		15 0 0
					,, 28	,, Balance ..			191 0 0
			£3 0 0	£957 0 0				£8 0 0	£957 0 0
			Fo. 9					Fo. 9	
Mar. 1	To Balance ..			£191 0 0					

SOLD DAY BOOK.

Date.	Particulars.	Fo.	Amount.
1920.			£ s. d.
Feb. 2	T. Crown ..	14	80 0 0
„ 4	W. Wilson ..	15	100 0 0
„ 9	L. Robinson	16	170 0 0
„ 16	W. Wilson ..	15	180 0 0
„ 22	T. Crown ..	14	130 0 0
			£660 0 0
			Fo. 3

BOUGHT DAY BOOK.

Date.	Particulars.	Fo.	Amount.
1920.			£ s. d.
Feb. 1	W. Martin ..	17	250 0 0
„ 10	F. Pearson ..	18	130 0 0
„ 14	W. Martin ..	17	150 0 0
„ 18	H. Wood ..	19	75 0 0
„ 23	W. Martin ..	17	240 0 0
			£845 0 0
			Fo. 4

LEDGER.

Dr. Fo. 1. CAPITAL ACCOUNT. *Cr.*

				1920.			£ s. d.
				Feb. 1	By Cash	C.B. 1	500 0 0

Dr. Fo. 2. CURRENT ACCOUNT. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 28	To Cash	C.B. 1	15 0 0	Feb. 28	By Net Profit	L. 20	36 15 2
	„ Balance		21 15 2				
			£36 15 2				£36 15 2
				Mar. 1	By Balance		£21 15 2

Dr. Fo. 3. SALES. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 28	To Trading Account ..	L. 20	740 0 0	Feb. 19	By Cash	C.B. 1	80 0 0
				„ 28	„ Sundries	S.D.B. 1	660 0 0
			£740 0 0				£740 0 0

Dr. Fo. 4. PURCHASES. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 8	To Cash	C.B. 1	30 0 0	Feb. 28	By Trading Account ..	L. 20	992 1 7
„ 15	„ „	„	40 0 0				
„ 24	„ „	„	73 0 0				
„ 28	„ Petty Cash	L. 12	4 1 7				
	„ Sundries	B.D.B. 1	845 0 0				
			£992 1 7				£992 1 7

Dr. Fo. 5. WAGES. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920. Feb. 6	To Cash	C.B. 1	4 0 0	1920. Feb. 28	By Profit and Loss A/c	L. 20	16 0 0
„ 13	„ „	„	4 0 0				
„ 20	„ „	„	4 0 0				
„ 27	„ „	..	4 0 0				
			£16 0 0				£16 0 0

Dr. Fo. 6. CARRIAGE. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920. Feb. 12	To Cash	C.B. 1	2 0 0	1920. Feb. 28	By Profit and Loss A/c	L. 20	5 2 0
„ 28	„ Petty Cash	L. 12	3 2 0				
			£5 2 0				£5 2 0

Dr. Fo. 7. LIGHTING. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920. Feb. 28	To Cash	C.B. 1	5 0 0	1920. Feb. 28	By Profit and Loss A/c	L. 20	5 0 0

Dr. Fo. 8. RENT. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920. Feb. 28	To Cash	C.B. 1	8 0 0	1920. Feb. 28	By Profit and Loss A/c	L. 20	8 0 0

Dr. Fo. 9. DISCOUNT. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920. Feb. 28	To Sundries	C.B. 1	3 0 0	1920. Feb. 24	By Sundries	C.B. 1	8 0 0
	„ Profit and Loss A/c	L. 20	5 0 0				
			£8 0 0				£8 0 0

Dr. Fo. 10. GENERAL EXPENSES. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920 Feb. 28	To Petty Cash	L. 12	7 1 3	1920 Feb. 28	By Profit and Loss A/c	L. 20	7 1 3

Dr. Fo. 11. WAREHOUSE FITTINGS. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920 Feb. 1	To Cash	C.B. 1	40 0 0				

Dr. Fo. 12. PETTY CASH. *Cr.*

Date		Fo.	£ s. d.	Date		Fo.	£ s. d.
1920 Feb. 2	To Cash	C.B. 1	20 0 0	1920 Feb. 28	By General Expenses	L. 10	7 1 3
					„ Carriage	L. 6	3 2 0
					„ Purchases	L. 4	4 1 7
					„ Balance		5 15 2
			£20 0 0				£20 0 0
Mar. 1	To Balance		£5 15 2				

Dr. Fo. 13. STOCK ACCOUNT. *Cr.*

1920.			£ s. d.				
Feb. 28	To Trading Account ..	L. 20	325 0 0				

Dr. Fo. 14. T. CROWN. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 2	To Goods	S.D.B. 1	80 0 0	Feb. 5	By Cash and Discount	C.B. 1	80 0 0
" 22	" "	"	130 0 0	" 26	" Cash	"	100 0 0
				" 28	" Balance		30 0 0
			£210 0 0				£210 0 0
Mar. 1	To Balance		£30 0 0				

Dr. Fo. 15. W. WILSON. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 4	To Goods	S.D.B. 1	100 0 0	Feb. 17	By Cash	C.B. 1	200 0 0
" 16	" "	"	180 0 0	" 28	" Balance		80 0 0
			£280 0 0				£280 0 0
Mar. 1	To Balance		£80 0 0				

Dr. Fo. 16. L. ROBINSON. *Cr.*

1920.			£ s. d.				
Feb. 9	To Goods	S.D.B. 1	170 0 0				

Dr. Fo. 17. W. MARTIN. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 3	To Cash	C.B. 1	150 0 0	Feb. 1	By Goods	B.D.B. 1	250 0 0
" 11	" Cash and Discount	"	100 0 0	" 14	" "	"	150 0 0
" 25	" Cash	"	200 0 0	" 23	" "	"	240 0 0
" 28	" Balance		190 0 0				
			£640 0 0				£640 0 0
				Mar. 1	By Balance		£190 0 0

Dr. Fo. 18. F. PEARSON. *Cr.*

				1920.			£ s. d.
				Feb. 10	By Goods	B.D.B. 1	130 0 0

Dr. Fo. 19. H. WOOD. *Cr.*

1920.			£ s. d.	1920.			£ s. d.
Feb. 21	To Cash and Discount	C.B. 1	75 0 0	Feb. 18	By Goods	B.D.B. 1	75 0 0

TRIAL BALANCE.

Fo.		Dr. £ s. d.	Cr. £ s. d.
1	Capital Account		500 0 0
2	Current Account	15 0 0	
3	Sales		740 0 0
4	Purchases	992 1 7	
5	Wages	16 0 0	
6	Carriage	5 2 0	
7	Lighting	5 0 0	
8	Rent	8 0 0	
9	Discount..		5 0 0
10	General Expenses	7 1 3	
11	Warehouse Fittings	40 0 0	
12	Petty Cash	5 15 2	
C.B. 1	Cash at Bank	191 0 0	
17	W. Martin		190 0 0
18	F. Pearson		130 0 0
14	T. Crown	30 0 0	
15	W. Wilson	80 0 0	
16	L. Robinson	170 0 0	
		£1,565 0 0	£1,565 0 0

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. Fo. 20. FOR MONTH ENDING 28TH FEBRUARY, 1920. *Cr.*

		£ s. d.			£ s. d.
To Purchases	L. 4	992 1 7	By Sales	L. 3	740 0 0
„ Balance, being Gross Profit ..		72 18 5	„ Stock, 28th Feb., 1920 ..	L. 13	325 0 0
		£1,065 0 0			£1,065 0 0
		£ s. d.			£ s. d.
To Wages	L. 5	16 0 0	By Gross Profit		72 18 5
„ Carriage	L. 6	5 2 0	„ Discount	L. 9	5 0 0
„ Lighting	L. 7	5 0 0			
„ Rent	L. 8	8 0 0			
„ General Expenses	L. 10	7 1 3			
„ Net Profit, carried to Current Account	L. 2	36 15 2			
		£77 18 5			£77 18 5

BALANCE SHEET

Dr. 28TH FEBRUARY, 1920. *Cr.*

		£ s. d.		£ s. d.
To Capital Account		500 0 0	By Warehouse Fittings	40 0 0
„ Current Account—			„ Stock	325 0 0
Net Profit	£36 15 2		„ Sundry Debtors..	280 0 0
Less Drawings ..	15 0 0		„ Cash at Bank	191 0 0
		21 15 2	„ Cash in hand	5 15 2
„ Sundry Creditors		320 0 0		
		£841 15 2		£841 15 2

SYNOPSIS OF CHAPTER II.

CASH BOOKS, &c.

CHAPTER II.

CASH BOOKS, &c.

§ 1.—Form of Cash Book for mixed Cash and Bank transactions.

Where possible all money received should be paid into the Bank, and all payments made by Cheque, for this minimises the risk of fraud. However, this is not always convenient, and consequently where this principle is not adopted it is absolutely essential to have such a form of Cash Book as will readily show at any time the balance at the Bank and the cash in hand or in the "Till."

ILLUSTRATION—

On 1st January, 1920, the following amounts were received :—
Cheque from J. Jones £20 ; Discount allowed £1.
Cash from F. Smith £40 ; Discount allowed £2.
Dividend on investment paid direct to Bank £10.

And the following payments were made :—
Paid T. Robinson by cheque £33 ; Discount allowed £1 10s.
Drew £20 from Bank for cash.
Paid Wages £18 from cash.
Private drawings of partner £10, from cash.
Paid £65 to Bank.

Record the above transactions in a convenient form of Cash Book, the commencing cash balances being £25 in hand and £300 at the bank.

Dr. CASH. CONTRA. *Cr.*

Date.	Particulars.	Folio.	Discount.	Cash.	Bank.	Date.	Particulars.	Folio.	Discount.	Cash.	Bank.
1920			£ s. d.	£ s. d.	£ s. d.	1920			£ s. d.	£ s. d.	£ s. d.
Jan. 1	To Balance			25 0 0	300 0 0	Jan. 1	By T. Robinson		1 10 0		33 0 0
	" J. Jones ...		1 0 0	20 0 0			" Cash ...	Con.			20 0 0
	" F. Smith ...		2 0 0	40 0 0			" Wages ...			18 0 0	
	" Div. from Investment ...				10 0 0		" Drawings ...			10 0 0	
	" Bank ...	Con.		20 0 0			" Bank ...	Con.		65 0 0	
	" Cash ...	Con.			65 0 0		" Balance ...			12 0 0	322 0 0
		£	3 0 0	105 0 0	375 0 0			£	1 10 0	105 0 0	375 0 0
	To Balance			12 0 0	322 0 0						

The Cash column on the Debit side records the Cash paid into the Till (which may of course include cheques, bank notes, coin, postal orders, or in fact any form of cash), and the Credit Cash column shows the amounts paid out in cash, either in settlement of an account or to pay money into the Bank. The Bank columns record the transactions with the Bank. Consequently the balance of the Cash columns will show the Cash in hand or in the till for which the Cashier is responsible, and the balance of the Bank columns the amount of Cash due from or to the Bank. When Cash is paid into the Bank the Cash column will be credited and the Bank column debited, thus creating a contra entry which will not require posting on either side. Similarly when Cash is withdrawn from the Bank the Bank column will be credited and the Cash column debited.

§ 2.—Form of Cash Book when all Receipts are Banked and all Payments made by Cheque.

This form of Cash Book is so simple that explanation is hardly necessary. All money received is daily paid into the Bank, the details being entered in a detail column, and the total, which should agree with the total of the Paying-in Book for the particular day, being extended into the Bank column. This facilitates the calling over with the Bank Pass Book. As all payments are made by cheque, no Cash payments whatever are recorded, these being strictly confined to the Petty Cash Book. The Detail column on the credit side is merely used when it is necessary to split up a cheque under several headings.

ILLUSTRATION—

Dr. CASH. CONTRA. *Cr.*

Date.	Particulars.	Folio.	Discount.	Detail.	Bank.	Date.	Particulars.	Folio.	Discount.	Detail.	Bank.
1920			£ s. d.	£ s. d.	£ s. d.	1920			£ s. d.	£ s. d.	£ s. d.
Jan 1.	To Balance ...				400 0 0	Jan. 1	By F. Robinson ...		4 0 0		196 0 0
	,, J. Jones ...		2 0 0	98 0 0			,, Sundries—				
	,, F. Smith ...		1 0 0	49 0 0			Salaries ...			15 0 0	
					147 0 0		Petty Cash ...			5 0 0	
											20 0 0
							By Balance ...				331 0 0
			£ 3 0 0		547 0 0				£ 4 0 0		547 0 0
	To Balance ...				£ 331 0 0						

§ 3.—Discount.

Discount may be of two kinds—Trade or Cash.

(*a*) *Trade Discount* is an allowance made by one house to another in the same trade, usually taking the form of a fixed percentage off the catalogue or list price of each article. It varies greatly in different trades, and even on different articles in the same trade, and bears no relation to the payment of cash. In the selling firm's books it should be deducted in the Sales Day Book, and in the purchasing firm's books in the Bought Day Book, thus not entering into the respective ledgers at all.

(*b*) *Cash Discount* is an allowance made by the seller to the purchaser in consideration of the latter paying his account promptly or within a certain specified time—such time being called the period of credit. For the record of this discount special columns are inserted on each side of the Cash Book (*vide* previous illustrations), discount payable being recorded on the debit, and discount receivable on the credit, against the item of cash to which they relate. The discount will then be posted with the cash item to the personal account concerned. The discount columns will be cast and ruled off whenever the Cash Book is balanced, the total of the Debit column being posted to the debit of a Discount Payable Account, and the total of the Credit column to the credit of a Discount Receivable Account in the Impersonal Ledger. Sometimes, however, both items are posted to a General Discount Account.

§ 4.—Bank Reconciliation Statement.

At any given date, it seldom happens that the balance of the Cash Book exactly agrees with the balance of the Bank Pass Book, and the reason for this is that cheques may have been drawn in payment of accounts and entered in the Cash Book, which have not yet been presented for payment by the payee, or being country or foreign cheques have not passed through the Bank. In the same way, cheques may have been paid into the Bank and entered into the Cash Book, but not having been cleared no credit is found in the Pass Book. This being the case, it is

necessary to make a Reconciliation Statement between the Cash Book and Pass Book as follows:—Having called over the Cash Book receipts and payments with the Pass Book, and observed that all bank charges have been entered in the former, the items not ticked on either side in the Cash Book will represent those which have not yet passed through the Bank. Having made a list of these, the cheques outstanding should be deducted from the balance of the Pass Book, and the items not credited added; the result should then equal the balance shown by the Cash Book.

ILLUSTRATION—

RECONCILIATION OF BANK PASS BOOK WITH CASH BOOK.

Balance as per Pass Book		£722 0 0
Less Cheques outstanding—Jones ..	£20 0 0	
Smith ...	32 0 0	
Robinson ...	70 0 0	
		122 0 0
		600 0 0
Add Amounts not credited—Black ...	£40 0 0	
White ...	60 0 0	
		100 0 0
Balance as per Cash Book ...		£700 0 0

Note to Illustration—

If there is an overdraft at the Bank, the cheques outstanding will be added, and the amounts not credited deducted.

§ 5.—Petty Cash Book.

The best form of Petty Cash Book to adopt is that known as the "Columnar," an example of which follows below. The Receipts from the Cash Book are entered in the Receipts column; the Payments are entered first into a Total column, and then extended into subsidiary columns under the most convenient headings. The Totals of the various columns are posted at each balancing period to the debit of the respective Impersonal Accounts, with the exception of the "Ledger" column, which is reserved for all items for which there is no specific subsidiary column, such items being posted in detail.

In such a case there is no necessity to keep a Petty Cash Account in the Impersonal Ledger, as the Petty Cash Book is regarded as forming

part of the Double Entry. Frequently, however, a Petty Cash Account is opened in the Impersonal Ledger, and all amounts paid to the Petty Cashier debited thereto. At regular intervals the analysis of the Petty Cash Expenditure will be journalised, the Petty Cash Account being credited and the various Expense Accounts debited. In this manner the Petty Cash Book becomes merely a Memorandum Book, and forms no part of the Double Entry.

PETTY CASH BOOK.

Receipts.	Folio in Cash Book.	Date.	PARTICULARS.	Voucher Number.	Total Payments.	Travelling Expenses.	Stationery.	Postage.	Sundry Expenses.	Ledger.	Folio.
£ s. d.		1920.			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
10 0 0	31	Jan. 1	Cash—								
			Envelopes	1	12 0		12 0				
			J. Jones—Bristol Expenses	2	3 10 6	3 10 6					
		2	Postage		2 0 0			2 0 0			
			Office Furniture—Stool ...	3	12 6					12 6	27
			Cleaning Carpets	4	17 6				17 6		
					7 12 6	3 10 6	12 0	2 0 0	17 6	12 6	
			Balance		2 7 6	L. 40	L. 25	L. 19	L. 51		
£10 0 0					£ 10 0 0						
£2 7 6		3	Balance								

§ 6.—The Imprest System.

This phrase is applied to the method of keeping Cash or Petty Cash, whereby the Cashier is started with a fixed sum, and at each balancing period a cheque is handed him for the exact amount of his disbursements, thus bringing up the balance in hand to the original figure which was the starting balance, the idea being in the case of Petty Cash that the amount of the periodical disbursements is kept prominently before the notice of a responsible official.

The system is of particular utility where the Petty Cashier is a separate individual from the Cashier. The Petty Cash Book, whether it forms part of the Double Entry or is merely a Record Book, should always be thoroughly checked when expenditure is reimbursed, and should be ruled off or initialled up to that point. If proper supervision

is exercised over the Petty Cashier, the responsible official can always call upon him to produce vouchers for unreimbursed expenditure and cash, which together should equal the amount of the imprest. This may have the effect of saving a considerable amount of the responsible official's time, as he will always know what amount ought to be accounted for.

SYNOPSIS OF CHAPTER III.

THE JOURNAL.

CHAPTER III.

THE JOURNAL.

§ 1.—The Use of the Journal.

One of the fundamental rules of Double Entry is that no items should be entered in the Ledger without first passing through some book of prime entry.

Up to within comparatively recent times there was only one book of prime entry, and that was the Journal, through which all entries were passed without exception. This still holds good to a large extent on the Continent, in countries where the Journal is legally necessary under the Code Napoleon; but in England, under modern systems of Book-keeping, the use of the Journal is largely dispensed with, its place being taken by separate subsidiary books for each class of transaction, *e.g.* Day Books, Bill Books, Returns Books, &c. It should be particularly noted, however, that these books are in themselves separate Journals, and the principle, as far as the Double Entry is concerned, remains the same, although the form is altered to reduce the amount of clerical labour.

The use of the Journal is now practically confined to recording—

(1) Transactions for which there is no specific subsidiary book of prime entry.

(2) Transfers.

(3) Adjusting Entries.

(4) Opening and Closing Entries.

§ 2.—The Form of Journal Entries.

No entry should be made in the Journal without an adequate explanation of its nature, and reference to any books or documents relating thereto. Such explanation is called *Narrative.* Unless this is inserted

it will often be found that even the Book-keeper has forgotten the origin of his entry, and considerable trouble may be occasioned thereby.

In addition to the illustrations given below, many other Journal entries dealing with specific subjects will be found throughout this volume.

ILLUSTRATION—

Record by Journal Entry purchase of Gas Engine, £300, from B. Jones & Co.

JOURNAL.

		£ s. d.	£ s. d.
Plant and Machinery Account .. .. Dr.		300 0 0	
To B. Jones & Co.			300 0 0
Being purchase of one Gas Engine.			

Record by Journal Entry transfer of £50 from B. Jones & Co.'s Account in the Bought Ledger to their Account in the Sold Ledger.

JOURNAL.

		£ s. d.	£ s. d.
B. Jones & Co. .. .. Dr.	BL 27	50 0 0	
To B. Jones & Co.	SL 22		50 0 0
Being balance of Bought Ledger Account transferred to Sold Ledger on Contra Account.			

Record by Journal Entry Interest at 5 per cent. per annum for one year on A. & F. Smith's Capitals of £1,000 and £500 respectively.

JOURNAL.

		£ s. d.	£ s. d.
Interest on Capital Account .. .. Dr.		75 0 0	
To Sundry Capital Accounts—			
A. Smith—5 % on £1,000			50 0 0
F. Smith—5 % on £500			25 0 0
Being interest at 5 per cent. per annum for the year ending 31st December, 1919, on Partners' Capitals respectively.			

Record by Journal Entry the opening entries of B. Smith, who started business on 1st January, 1920, with the following assets and liabilities :—

	£	s.	d.
Sundry Debtors ..	200	0	0
Bills Receivable ..	100	0	0
Cash at Bank ..	500	0	0
Stock	800	0	0
Sundry Creditors ..	150	0	0
Bills Payable ..	50	0	0

JOURNAL.

1920. Jan. 1	Sundries— Dr.	£ s. d.	£ s. d.
	To Sundries—		
	Sundry Debtors	200 0 0	
	Bills Receivable	100 0 0	
	Stock	800 0 0	
	Cash	500 0 0	
	Sundry Creditors		150 0 0
	Bills Payable		50 0 0
	B. Smith: Capital Account		1,400 0 0
	Being Assets and Liabilities as at this date.	£1,600 0 0	£1,600 0 0

§ 3.—Day Books.

In order to minimise the labour which would otherwise be involved in journalising each transaction, various separate books are kept as stated in § 1, for the purpose of recording particular classes of transactions.

Of these the most important are the Bought and Sold Day Books, utilised for recording Purchases and Sales of the business.

The following is a suitable ruling for a Bought Day Book :—

BOUGHT DAY BOOK.

Ledger Folio.	Invoice No.	Particulars.	Details.	Amount.
		1st January, 1920.	£ s. d.	£ s. d.
B 62	18	A. Wilson, Loughborough.		
		2 cwt. Souchong at 1s.	11 4 0	
		1 cwt. Cocoa at 2s.	11 4 0	22 8 0

The various items entered in the Bought Day Book will be posted to the credit of the person named, and periodically the double entry will be completed by posting the total of the book to the debit of Purchases Account.

The various items entered in the Sales Day Book will be posted to the debit of the person named, and periodically the double entry will be completed by posting the total of the book to the credit of Sales Account.

ILLUSTRATION—

A. Jones, of London, sold to S. Smith 10 bicycles at 10 guineas each, subject to 20 per cent. trade discount, and three extra parts at 10s. each net.

Make out an invoice subject to 5 per cent. discount cash in one month, and show the entry in the Sold Day Book.

INVOICE.

LONDON,
Date............

S. SMITH,

Dr. TO A. JONES.

Terms: 5 % Cash at one month.

	£ s. d.	£ s. d.
To 10 Bicycles at £10 10s.	105 0 0	
Less Trade Discount 20 %	21 0 0	
		84 0 0
3 extra parts 10s. net		1 10 0
		£85 10 0

E. & O. E.

SOLD DAY BOOK.

Ledger Folio.	No. of Invoice.	Particulars.	Details.	Amount.
		Date.	£ s. d.	£ s. d.
A 401	109	S. Smith.		
		10 Bicycles at £10 10s. £105		
		Less Trade Discount 21	84 0 0	
		3 extra parts at 10s.	1 10 0	85 10 0

§ 4.—Columnar Journals.

It is frequently convenient to have a form of Bought Journal that will record all invoices received by a business, whether they relate to purchases or expenses.

A total column is provided, and as many subsidiary columns as are necessary under the circumstances. Each invoice will be entered

in the total column and posted to the credit of the creditor, and the amount extended into the proper subsidiary column or columns. The totals of these will be posted to the debit of the respective Impersonal Accounts periodically.

The following is a suitable ruling of such a book :—

COLUMNAR BOUGHT JOURNAL.

Invoice No.	Date.	Particulars.	Fo.	Total.	Purchases.	Freight.	Trade Exps.	Ledger.	Fo.

The Ledger column is utilised for special items where no specific column is provided. This column is posted in detail and not in total, as are the other columns.

Similar forms can be used for Sales Journals, Returns Books and the like, where it is desired to split up the items under different headings.

This is more particularly dealt with in the Chapter dealing with Departmental Accounts.

§ 5.—The Rectification of Errors through the Journal.

It is desirable where possible to journalise entries made to adjust errors in posting, since by so doing the causes which led to the adjusting entry being made will be recorded.

ILLUSTRATION—

How would the following errors in the books of a business affect the accounts of the same? Show corrective Journal entries:—

£35 0 0 for goods sold to H. Jones posted to the debit of Charges.

63 1 2 cash posted to the credit of H. Brown, a partner, instead of to H. Brown, a customer.

12 1 9 posted to Office Expenses for the purchase of a safe.

1 5 6 posted to debit of Stationery, instead of to T. Wildsmith in payment of his account.

39 1 7 for wages to workmen for erecting the firm's new machinery, charged to Wages Account.

30 0 0 cost of repairing roof of a shed, charged to Buildings Account.

JOURNAL.

		£ s. d.	£ s. d.
H. Jones	*Dr.*	35 0 0	
To Charges	..		35 0 0
Being transfer of amount posted to debit of Charges in error.			
H. Brown, Current Account	*Dr.*	63 1 2	
To H. Brown	..		63 1 2
Being transfer of amount posted to credit of H. Brown's Current Account in error.			
Office Furniture	*Dr.*	12 1 9	
To Office Expenses	..		12 1 9
Being transfer of charge to Furniture Account for Safe posted to Office Expenses Account in error.			
T. Wildsmith	*Dr.*	1 5 6	
To Stationery	..		1 5 6
Being transfer of amount posted to Stationery Account in error.			
Plant and Machinery	*Dr.*	39 1 7	
To Wages	..		39 1 7
Being Wages incurred in erecting new Machinery.			
Repairs	*Dr.*	30 0 0	
To Buildings	..		30 0 0
Being cost of repairing roof of Shed charged to Buildings Account in error.			

The rectification of these errors will increase the profit by £57 8s. 10d.

SYNOPSIS OF CHAPTER IV.

DEPRECIATION, RESERVES, SINKING FUNDS, &c.

§ 1.—Definition of Depreciation, and considerations necessary to determine its Rate.

2.—The necessity of providing for Depreciation.

3.—The principal methods of providing for Depreciation.

- (*a*) The Fixed Instalment System.
- (*b*) The Reducing Instalment System.
- (*c*) The Annuity System.
- (*d*) The Depreciation Fund System.
- (*e*) The Insurance Policy System.
- (*f*) Revaluation.

4.—The Treatment of Repairs, Renewals and Replacements.

5.—Definition of Reserve and Reserve Fund.

6.—Reserves for Bad Debts.

- (*a*) By reserving on each Doubtful Debt.
- (*b*) By the Percentage System.

7.—Reserves for Discounts.

8.—The Operation of Sinking Funds for the Repayment of Loans.

9.—The Operation of Insurance Funds in Steamship Companies' Accounts.

10.—Secret Reserves.

11.—Outstanding Liabilities.

12.—Payments in Advance.

13.—Suspense Accounts.

CHAPTER IV.

DEPRECIATION, RESERVES, SINKING FUNDS, &c.

§ 1.—Definition of Depreciation, and the considerations necessary to determine its Rate.

Depreciation is the shrinkage in value of an asset from any cause during a given period.

It may be divided broadly into two classes—

(*a*) Internal.
(*b*) External.

Internal depreciation is that arising from the operation of any cause natural to or inherent in the asset itself, *e.g.* wear and tear in the case of Plant and Machinery.

External depreciation is that arising from the operation of forces apart from the asset itself, *e.g.* obsolescence in the case of Plant and Machinery; effluxion of time in the case of a Lease.

In estimating the average life of any asset in order to fix a rate of depreciation, the various forces operating to cause depreciation must be carefully distinguished. It is usually possible to forecast the internal depreciation, such as wear and tear, with reasonable correctness, given the necessary experience and knowledge of the business concerned; but the external forces (apart from effluxion of time, which can of course be calculated most exactly of all) are usually so erratic and variable in their nature that in many cases they are ignored until the actual loss caused thereby has been ascertained.

The term depreciation is usually understood to convey permanent shrinkage in value, temporary shrinkage being termed fluctuation.

§ 2.—The Necessity of Providing for Depreciation.

Depreciation, being a loss incident to the holding of certain assets for the purpose of earning income, should clearly be set off against such income as a working expense before the balance of divisible profit can be arrived at.

If the whole of the profits are withdrawn without providing for this loss, moneys will not have been accumulated out of revenue during the life of the asset for the purpose of replacing the same, and consequently, when that becomes necessary new capital will have to be found in order to do so.

Unless provision is made for depreciation the Balance Sheet cannot be said to represent a true and correct view of the state of affairs.

It is not considered necessary to discuss the question of Depreciation from a legal point of view as affecting limited companies, as this is outside the scope of the present volume. The matter is here dealt with from a point of view of financial prudence. The contention is that depreciation, taking place as it does irrespective of the results of the business, should be recorded in the books just as much as any other transaction, if those books are to show the true facts of the case.

§ 3.—The Principal Methods of Providing for Depreciation.

(a) The Fixed Instalment System:

Whereby a fixed rate per cent. on the original cost of the asset is written off each year so as to reduce the asset to nil or break-up value at the end of its life, repairs and small renewals being charged to Revenue.

The method is used in the case of short Leases; it is not, however, scientific for such terminable assets, in connection with which the expiration of the Capital Value is more correctly determined by the Annuity method referred to in § 3 (*c*).

Although the Reducing Instalment system is most frequently employed in connection with Plant and Machinery, there can be no doubt that the Fixed Instalment, or "Straight Line" method is the safest to

employ; the only difficulty in applying it being the calculation of depreciation on additions.

In order to calculate the depreciation charge under this system it is necessary to classify the machinery under effective life periods, separate accounts being utilised for each group having the same expectation of time of utility. The way in which the depreciation charge is ascertained and the asset account kept, is shown in the following illustration.

ILLUSTRATION—

Machinery and Plant, Class A, of ten years effective life, is acquired at the commencement of the year 1916 for £4,000.

Additions are made at the commencement of the years 1917 and 1918 of the value of £400 and £250 respectively.

Show the Asset Account depreciated by 10 per cent. per annum, and show how the depreciation is arrived at.

DEPRECIATION RECORD.

MACHINERY AND PLANT. CLASS A. TEN YEARS LIFE.

		1916.	1917.	1918.	1919.	1920.	1921.	1922.	Depreciation.	Jnl. Fo.	
		£	£	£	£	£	£	£	£		
1916	Book Value	4,000									
	Depreciation	400							400		1916
1917	Book Value	3,600	400								
	Depreciation	400	40						440		1917
1918	Book Value	3,200	360	250							
	Depreciation	400	40	25					465		1918
1919	Book Value	2,800	320	225							&c.
&c.											

MACHINERY AND PLANT.

Dr. CLASS A. TEN YEARS LIFE. *Cr.*

		£ s. d.			£ s. d.
1916. Jan. 1	To Cash	4,000 0 0	1916. Dec. 31	By Depreciation	400 0 0
				„ Balance	3,600 0 0
		£,4000 0 0			£4,000 0 0
1917. Jan. 1	To Balance	3,600 0 0	1917. Dec. 31	By Depreciation	440 0 0
	„ Cash (Additions) ..	400 0 0		„ Balance	3,560 0 0
		£4,000 0 0			£4,000 0 0
1918. Jan. 1	To Balance	3,560 0 0	1918. Dec. 31	By Depreciation	465 0 0
	„ Cash (Additions) ..	250 0 0		„ Balance	3,345 0 0
		£3,810 0 0			£3,810 0 0
1919. Jan. 1	To Balance	£3,345 0 0			

Notes to Illustration.

The Depreciation Record is not a Ledger Account, but is a statistical statement, the computation of which is essential if the depreciation is to be calculated on this system. The horizontal depreciation figures are totalled in the last column thereon and the figure to be journalised will be found therein.

Where the additions are not made at the beginning of the year, which will usually be the case, the first year's charge may require adjustment, *i.e.*, the last dated column may require depreciation to be calculated for part of a year. All past yearly columns will however subsequently require a full year's charge.

The resulting balances on the statement when added together should equal the balance on the Ledger Account concerned

(b) The Reducing Instalment System:

Whereby a fixed rate per cent. on the diminishing value of the asset is written off each year, so as to reduce the asset to break-up value at the end of its life, repairs and small renewals being charged to revenue.

This method is commonly used for Plant, Fixtures, Furniture, &c. It is very simple in operation, and the total charge to revenue in respect of depreciation and repairs is more level each year than under method (*a*), since while depreciation is heavy in the early years, repairs will be lighter, the latter increasing as the former grows less; whereas under (*a*) the charge for depreciation is constant, while repairs will tend to increase. It is desirable, however, under this system, to re-value from time to time, to ensure the effectiveness of the rate utilised.

ILLUSTRATION—

Balance of Plant Account at 1st January, 1917, £1,726.

Additions during 1917 £321, and 1918 £57.

Depreciation at 10 % per annum on the Reducing Instalment System.

Dr. PLANT ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1917.			1917.		
Jan. 1	To Balance	1,726 0 0	Dec. 31	By Depn. 10% on £1,726 0 0	172 12 0
Dec. 31	" Additions	321 0 0		" Balance	1,874 8 0
		£2,047 0 0			£2,047 0 0
1918.		£ s. d.	1918.		£ s. d.
Jan. 1	To Balance	1,874 8 0	Dec. 31	By Depn. 10% on £1,874 8 0	187 8 9
Dec. 31	" Additions	57 0 0		" Balance	1,743 19 3
		£1,931 8 0			£1,931 8 0
1919.					
Jan. 1	To Balance	£1,743 19 3			

(c) The Annuity System :

Whereby the asset is regarded as earning a fixed rate of interest, and so much is written off each year as, after debiting the fixed rate per cent. upon the diminishing value, will reduce the asset to nil at the end of its life.

This is the most scientific system when investment is *not* desired outside the business, and is specially applicable to cases such as leases, where no additions are made to the asset during its life. It is not generally used for plant, since when additions are made from time to time, these would at once necessitate further calculations.

The interest debited to the asset account will be credited to revenue, and this item will diminish each year with the value of the asset, although the amount written off as depreciation remains constant. There will, therefore, be an increasing net charge to revenue in respect of the lease.

ILLUSTRATION—

Lease costing £600 for term of five years. Depreciation by the Annuity Method at 5 % per annum.

Dr. LEASE ACCOUNT. *Cr.*

1915.		£ s. d.	1915.		£ s. d.
Jan. 1	To Cash	600 0 0	Dec. 31	By Depreciation	138 11 6
Dec. 31	" Interest at 5%	30 0 0		" Balance	491 8 6
		£630 0 0			£630 0 0
1916.		£ s. d.	1916.		s. d.
Jan. 1	To Balance	491 8 6	Dec. 31	By Depreciation	138 11 6
Dec. 31	" Interest	24 11 5		" Balance	377 8 5
		£515 19 11			£515 19 11
1917.		£ s. d.	1917.		£ s. d.
Jan. 1	To Balance	377 8 5	Dec. 31	By Depreciation	138 11 6
Dec. 31	" Interest	18 17 5		" Balance	257 14 4
		£396 5 10			£396 5 10
1918.		£ s. d.	1918.		£ s. d.
Jan. 1	To Balance	257 14 4	Dec. 31	By Depreciation	138 11 6
Dec. 31	" Interest	12 17 9		" Balance	132 0 7
		£270 12 1			£270 12 1
1919.		£ s. d.	1919.		£ s. d.
Jan. 1	To Balance	132 0 7	Dec. 31	By Depreciation	138 12 7
Dec. 31	" Interest	6 12 0			
		£138 12 7			£138 12 7

NOTE.—The annual amount of depreciation under this system is calculated from actuarial tables compiled for the purpose. There will usually be differences arising from fractions of a penny which will be adjusted in the last year.

Dr. DEPRECIATION AND INTEREST ACCOUNT. *Cr.*

1915. Dec. 31	To Depreciation	£ s. d. 138 11 6	1915. Dec. 31	By Interest	£ s. d. 30 0 0
				,, P. & L.	108 11 6
		£138 11 6			£138 11 6
1916. Dec. 31	To Depreciation	£ s. d. 138 11 6	1916. Dec. 31	By Interest	£ s. d. 24 11 5
				,, P. & L.	114 0 1
		£138 11 6			£138 11 6
1917. Dec. 31	To Depreciation	£ s. d. 138 11 6	1917. Dec. 31	By Interest	£ s. d. 18 17 5
				,, P. & L.	119 14 1
		£138 11 6			£138 11 6
1918. Dec. 31	To Depreciation	£ s. d. 138 11 6	1918. Dec. 31	By Interest	£ s. d. 12 17 9
				,, P. & L.	125 13 9
		£138 11 6			£138 11 6
1919. Dec. 31	To Depreciation	£ s. d. 138 12 7	1919. Dec. 31	By Interest	£ s. d. 6 12 0
				,, P. & L.	132 0 7
		£138 12 7			£138 12 7

NOTE.—In practice this account might not be used, depreciation and interest being debited and credited respectively to their separate accounts, but it is shown here in order to illustrate the increasing charge each year to Profit and Loss.

(d) The Depreciation Fund System:

Whereby an equal amount is debited to the Profit and Loss Account each year, and credited to a Depreciation Fund Account, and an equivalent amount of cash is invested outside the business in gilt-edged securities, and allowed to accumulate at compound interest so as to produce the required amount at the completion of a given number of years.

This system is adopted where it is necessary to replace the asset at the end of its life, and to provide moneys *outside the business* for such purpose. This will avoid any disturbance of the financial position, such as might occur if large sums had to be withdrawn from the business at any particular moment.

ILLUSTRATION—

Lease costing £2,091 16s. 3d. for term of four years. Depreciation by the Depreciation Fund System at 3 % per annum.

Dr. DEPRECIATION FUND ACCOUNT. *Cr.*

Date		£ s. d.	Date		£ s. d.
1916. Dec. 31	To Balance	1,015 0 0	1915. Dec. 31	By P. & L. %	500 0 0
			1916. Dec. 31	,, Cash : Interest	15 0 0
			,,	,, P. & L. %	500 0 0
		£1,015 0 0			£1,015 0 0
1917. Dec. 31	To Balance	1,545 9 0	1917. Jan. 1	By Balance	1,015 0 0
			Dec. 31	,, Cash : Interest	30 9 0
			,,	,, P. & L. %	500 0 0
		£1,545 9 0			£1,545 9 0
1918. Dec. 31	To Balance	2,091 16 3	1918. Jan. 1	By Balance	1,545 9 0
			Dec. 31	,, Cash : Interest	46 7 3
			,,	,, P. & L. %	500 0 0
		£2,091 16 3			£2,091 16 3
1919. Feb. 7	To Lease %	2,091 16 3	1919. Jan. 1	By Balance	2,091 16 3

Dr. INVESTMENT ACCOUNT. *Cr.*

Date		£ s. d.	Date		£ s. d.
1915. Dec. 31	To Cash	500 0 0	1916. Dec. 31	By Balance	1,015 0 0
1916. Dec. 31	,, ,, ...	515 0 0			
		£1,015 0 0			£1,015 0 0
1917. Jan. 1	To Balance	1,015 0 0	1917. Dec. 31	By Balance	1,545 9 0
Dec. 31	,, Cash	530 9 0			
		£1,545 9 0			£1,545 9 0
1918. Jan. 1	To Balance	1,545 9 0	1918. Dec. 31	By Balance	2,091 16 3
Dec. 31	,, Cash	546 7 3			
		£2,091 16 3			£2,091 16 3
1919. Jan. 1	To Balance	2,091 16 3	1919. Feb. 7	By Cash	2,091 16 3
		£2,091 16 3			£2,091 16 3

Dr. LEASE ACCOUNT. *Cr.*

Date		£ s. d.	Date		£ s. d.
1915. Jan. 1	To Balance	2,091 16 3	1919. Feb. 7	By Depreciation Fund ..	2,091 16 3
		£2,091 16 3			£2,091 16 3

Dr. NEW LEASE ACCOUNT. *Cr.*

1919. Mar. 2	To Cash	£2,000 0 0			

Notes to Illustration.

(1) For the sake of simplicity the investments have been taken at par, and interest has been brought in yearly, without deduction of Income Tax, and invested as received.

(2) In many cases instructions are given to the Bank of England to reinvest the interest in the principal stock as and when received, in which cases the dividends are never actually received, a book entry debiting the Investment Account and crediting the Depreciation Fund Account being made to record the transaction.

(3) In practice the Investment will never realise exactly the book value owing to market fluctuations which have, however, in this case been ignored.

(4) The Depreciation Fund Account is finally disposed of by transferring the balance to the Lease Account, thus closing both accounts. This illustrates the fact that the provision for a depreciation fund is a charge against profits, and not an appropriation thereof.

(5) Various terms are utilised in place of the phrase Depreciation Fund, *e.g.* Redemption Fund, Amortisation Fund, Sinking Fund, &c.

(e) The Insurance Policy System:

Whereby an Endowment Policy is taken out for the life of the Lease so as to produce the amount required at the end of the particular period.

A similar procedure is followed as in the case of the Depreciation Fund System, with the exception that the cash taken out of the business is not invested in gilt-edged securities, but paid over by way of premium to an Insurance Company.

It is advisable that the "Policy Account" should be maintained at the surrender value thereof, which in nearly all cases is the amount of the premiums paid (plus 2 % per annum compound interest), with the exception of the first premium, which is withheld by the Insurance Company to cover expenses.

This method is becoming increasingly popular now that the Insurance Companies have found it possible to give such favourable terms, for although the interest is lower than could be obtained by investing in gilt-edged securities, there is no risk of loss on realisation as there is under the Depreciation Fund System.

When the policy matures a greater sum will be received than that shown in the books to the debit of the Policy Account, since this has been maintained at the surrender value only. This profit will be debited to the Policy Account and credited to the Redemption Fund Account.

(f) Revaluation:

It is advisable to resort to this method of ascertaining the amount of depreciation to write off in the case of loose Tools, Plant which rapidly depreciates, Live Stock, Patents, Copyrights and similar assets. Should the revaluation disclose an appreciation brought about by additions from Revenue, as in the case of loose Tools and Plant in an Engineering business (the cost of which, in the shape of materials and wages, has been charged to the Trading Account), such appreciation should be carried to the credit of the Trading Account.

Where the appreciation has not been brought about by additions from Revenue, it will be of a capital nature, and if taken into consideration at all should be placed to the credit of a Special Reserve Account.

§ 4.—The Treatment of Repairs, Renewals and Replacements.

In considering the question of depreciation, distinction should be made between the cost of up-keep in the shape of repairs and small renewals, and the cost of large renewals or the entire replacement of the asset concerned.

In all cases the cost of up-keep should be charged to revenue in addition to the necessary provision for depreciation. The latter represents a shrinkage in the value of the asset which cannot be made good by repairs, but must ultimately involve the expenditure of large sums on account of replacement. The annual charge of depreciation enables this loss to be spread over the life of the asset, thus preventing the revenue of any one period being unduly burdened with the cost of replacement

D 2

The current expenditure by way of repairs is necessary to preserve the life of the asset to the extent of its normal duration, this being the basis upon which the rate of depreciation is determined. Consequently it is essential that the cost of current repairs should be charged to revenue if the rate of depreciation is to be in reality adequate.

In the case of large renewals and replacements the book value of the original asset should have been reduced to nil or break-up value by the time such expenditure becomes necessary, if the rate of depreciation provided has been sufficient. This fact determines whether such expenditure can be justifiably charged to capital.

If there remains any book value over and above break-up value attaching to the asset to be replaced, only such proportion of the cost of replacement as will bring the book value of the asset to the current cost should be capitalised, the balance, which represents accumulated depreciation unprovided for in the past, being charged to revenue.

It is important to consider whether it is necessary to provide for future expenditure on repairs during the early years of the life of an asset, when, although the current expenditure is comparatively slight, it is known that the expenditure at a subsequent period will be considerable. Where large sums are involved, the best method is to estimate the total expenditure on repairs during the life of the asset, and to average the same over that period. This will be done by raising a Maintenance Reserve Account, crediting thereto every year the estimated normal average charge which will be debited to revenue. The actual expenditure as and when it is made will be debited against the Maintenance Reserve Account, and the balance of that account carried forward in the Balance Sheet.

It may happen that this account will become temporarily in debit owing to excessive expenditure in any one period. If this is likely to be recouped during subsequent periods, it can be carried forward, but care should be taken to see that the average annual charge is sufficient for this purpose.

Dilapidations arising under a lease afford an illustration of expenditure on repairs which accrues at some subsequent period, but which it is nevertheless advisable to provide for during the life of the asset. The most convenient method of doing this is to estimate the dilapidations, and add the amount arrived at to the cost of the lease, for the purpose of calculating the amount of depreciation which should be written off each year, thus spreading the cost of the dilapidations over the whole period.

§ 5.—Definition of Reserve and Reserve Fund.

A Reserve is an amount set aside out of profits either for some specific purpose, such as to provide for bad debts, or for the general purpose of strengthening the business by way of accumulating working capital.

A Reserve Fund is a reserve either general or specific, represented by investments outside the business. Sinking Funds, Insurance Funds, and Depreciation Funds are instances of specific Reserve Funds.

It should be noted that there is a considerable diversity of opinion as to the exact meaning of the term Reserve Fund, and the phrase is frequently used where there are no specific investments representing such fund outside the business. There can be no question, however, that the use of the word " Fund " is generally understood to imply the corresponding existence of assets of a readily realizable nature, and in the opinion of the Authors the phrase should only be used where this is the case.

Specific Reserves which are provided against anticipated losses should be treated as charges on the profits, whereas General Reserves should be regarded as appropriations of profit.

Specific Reserves are usually shown in the Balance Sheet by way of deductions from the assets against which they are made, whereas General Reserves and Reserve Funds are shown on the liabilities side of the Balance Sheet.

§ 6.—Reserves for Bad Debts.

Actual bad debts not written off should be reserved for in full. Doubtful debts may be provided for in two ways :—

(a) By Reserving on each Doubtful Debt.

When the doubtful debts are not very numerous or are individually large in amount, reserve should be calculated separately on each doubtful debt, and the amount so arrived at debited to Profit and Loss Account and credited to Bad Debt Reserve Account.

(b) By the Percentage System.

In other cases it is usual to reserve by way of percentage on the outstanding debtors, the rate of which will be governed by past experience. Sometimes the percentage is calculated on the turnover, but this method is not recommended, inasmuch as the possible bad debts stand in direct relation to the outstanding debtors and not to the turnover. When the actual bad debts are written off, they should be charged against the Reserve Account, and when the accounts are prepared the balance of this Reserve Account should be increased to the amount of the percentage on the outstanding debtors by means of a further transfer from Profit and Loss.

ILLUSTRATION—

The outstanding debtors of a business at 1st January, 1919, are £20,000, and at 31st December, 1919, £25,000. Reserve is made for doubtful debts at 4% on the outstanding debtors. Bad debts written off during the year 1919 amount to £750. Show the Bad Debt Reserve Account for the year 1919, and the amount to be written off to Profit and Loss Account.

Dr. BAD DEBT RESERVE ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1919.			1919.		
Dec. 31	To Bad Debts	750 0 0	Jan. 1	By Balance 4% on £20,000	800 0 0
	„ Balance 4% on £25,000..	1,000 0 0	Dec. 31	„ P. & L. %	950 0 0
		£1,750 0 0			£1,750 0 0
			1920.		
			Jan. 1	By Balance	£1,000 0 0

§ 7.—Reserves for Discounts.

The question as to whether reserves should be made for discount on debtors and creditors is purely optional, the argument in favour of provision being that since it is known that a certain amount of discount will have to be allowed, reserve should be made accordingly in order that the debtors and creditors may stand in the Balance Sheet at the amount they are expected to realise or be paid ultimately in cash. This contention is emphasised if it is assumed that the accounts are discharged as at the date of the Balance Sheet. On the other hand the argument against such provision is that discount being an allowance granted in consideration of cash being paid at a given date or within a certain specified time, the discount should fall in the same period as that in which the cash passes.

Where a reserve for discount is made, a Discount Reserve Account should be opened and worked in manner similar to a Bad Debt Reserve Account. The discount may either be calculated separately on each personal balance outstanding, or by way of a percentage on the total outstanding. This percentage can be arrived at by taking the average rate of discount allowed in previous periods on the sales and purchases respectively. Reserve should be made in respect of good debts only, *i.e.* it should be calculated upon the total amount of Book Debts *less* any reserve for bad and doubtful debts.

§ 8.—The Operation of Sinking Funds for the Repayment of Loans.

Such a fund works in precisely the same way as the Depreciation Fund described in § 3 (*d*). An equal amount is debited to the Profit and Loss Account each year, and credited to Sinking Fund Account, and an equivalent amount of Cash is invested outside the business in gilt-edged securities, and allowed to accumulate at compound interest, so as to produce the required amount at the end of the given period.

At the end of the time the investments will be realised and the loan repaid. This leaves the Sinking Fund still standing with a credit

balance, which should be transferred to General Reserve Account, since the particular purpose for which it was created has ceased to exist. Whereas formerly it was represented by specific investments, it will now be represented by the general assets of the business which will to that extent have been acquired out of profits. This illustrates the point that the provision of a Sinking Fund for the repayment of a liability is not a charge against profits, but an appropriation of them, thus marking its profound distinction in principle from a Depreciation Fund formed for the purpose of replacing an asset, the provision of which is a charge against profits.

The reason why the provision for such a Sinking Fund is debited against the Profit and Loss Account, is in order that moneys may be accumulated and set aside out of profits to repay the liability without having to provide capital moneys for that purpose.

It would be perfectly possible to accumulate funds outside the business for the repayment of any liability, by simply making annual investments out of cash without charge against the Profit and Loss Account at all, but in such a case the balance of the Profit and Loss Account would appear out of all proportion to the amount of profits which it would be prudent to distribute.

If a business distributes the whole of its profits, and at the same time makes these investments by annual instalments without forming a Sinking Fund for the redemption of its loan, the financial position might easily become seriously affected.

ILLUSTRATION—

On the 1st January, 1915, Debentures to the extent of £500 were issued, redeemable at par at the end of five years, and it was resolved that a Sinking Fund should be formed.

Show the Ledger Accounts for the five years, presuming that the interest received on the investments representing the Sinking Fund was at the rate of 5 per cent. on the cost, that Income Tax was ignored, and that the interest was received yearly, and immediately invested.

NOTE.—·180975 of £1 annually invested at 5 per cent. compound interest will produce £1 at the end of five years.

Dr. **SINKING FUND ACCOUNT.** *Cr.*

		£ s. d.			£ s. d.
1915. Dec. 31	To Balance	90 9 9	1915. Dec. 31	By P. & L. Account ..	90 9 9
1916. Dec 31	To Balance	185 10 0	1916. Jan. 1	By Balance	90 9 9
			Dec. 31	„ P. & L. Account ..	90 9 9
				„ Cash (Interest) ..	4 10 6
		£185 10 0			£185 10 0
1917. Dec. 31	To Balance	285 5 3	1917. Jan. 1	By Balance	185 10 0
			Dec. 31	„ P. & L. Account ..	90 9 9
				„ Cash (Interest) ..	9 5 6
		£285 5 3			£285 5 3
1918. Dec. 31	To Balance	390 0 3	1918. Jan. 1	By Balance	285 5 3
			Dec. 31	„ P. & L. Account ..	90 9 9
				„ Cash (Interest) ..	14 5 3
		£390 0 3			£390 0 3
1919. Dec. 31	To Reserve Account.. ..	500 0 0	1919. Jan. 1	By Balance	390 0 3
			Dec. 31	„ P. & L. Account ..	90 9 9
				„ Cash (Interest) ..	19 10 0
		£500 0 0			£500 0 0

Dr. **INVESTMENT ACCOUNT.** *Cr.*

		£ s. d.			£ s. d.
1915. Dec. 31	To Cash	90 9 9	1915. Dec. 31	By Balance	90 9 9
1916. Jan 1	To Balance	90 9 9	1916. Dec. 31	By Balance	185 10 0
Dec. 31	„ Cash	95 0 3			
		£185 10 0			£185 10 0
1917. Jan. 1	To Balance	185 10 0	1917. Dec. 31	By Balance	285 5 3
Dec. 31	„ Cash	99 15 3			
		£285 5 3			£285 5 3
1918. Jan. 1	To Balance	285 5 3	1918. Dec. 31	By Balance	390 0 3
Dec. 31	„ Cash	104 15 0			
		£390 0 3			£390 0 3
1919. Jan. 1	To Balance	390 0 3	1919. Dec. 31	By Cash	390 0 3

Dr. **DEBENTURES.** *Cr.*

1919. Dec. 31	To Cash	£500 0 0	1915. Jan. 1	By Cash	£500 0 0

Note to Illustration.

At the end of the fifth year, viz., 31st December, 1919, no cash will be taken out of the business and invested, for the obvious reason that the Debentures are redeemable on that date. Thus the difference between the total of the Sinking Fund, £500, at 31st December,

1919, and the total amount of the investments, £390 0s. 3d., *i.e.* £109 19s. 9d., is made up as follows :—

	£	s.	d.
Final instalment of Sinking Fund uninvested	£90	9	9
Interest on Investments uninvested..	19	10	0
	£109	19	9

The calculation of the amount of the instalment will be made as follows :—

If £1 is produced at the end of five years by annual instalments of £·180975 at 5 per cent. compound interest ;

Then £500 is produced at the end of the same period by annual instalments of £·180975 × 500 = £90 9s. 9d.

$$\begin{array}{r} \cdot180975 \\ 500 \\ \hline 90\cdot487500 \\ 20 \\ \hline 9\cdot750000 \\ 12 \\ \hline 9\cdot000000 \\ \hline\hline \end{array}$$

§ 9.—The Operation of Insurance Funds in Steamship Companies' Accounts.

Steamship Companies owning a fleet of vessels frequently insure either a part or the whole of their fleet themselves. There must be a sufficient number of ships to enable the law of average to apply, and consequently the practice is not applicable to companies owning a single ship, since in the event of a total loss the fund would not be sufficient to meet the claim.

It is usual to commence operations by insuring a line on each ship representing a proportion of its value, the remainder being insured outside, in order to avoid the risk of a heavy loss on any one ship swamping the Fund while it is small. As the Fund grows, the line is gradually increased.

An amount should be credited to the Insurance Fund Account each year equal to the insurance premiums that would have been payable had the insurance been effected outside, or slightly in excess thereof, the same being debited to the Voyage Accounts as insurance. An

equivalent amount should be invested outside the business in gilt-edged securities at compound interest. To the credit of the Insurance Fund Account will also be placed interest on the Investments representing the Fund, and Salvages, Refunds, &c. To the debit will be charged Losses, Re-insurances, and Expenses of administering the Fund, including loss on sale of Investments, if any.

No division of Insurance profits should be made until the Fund has reached such a position as to be sufficient to provide for any contingencies likely to arise. The circumstances to be taken into account are the number of ships in the fleet in order to ascertain the average risk, the nature of the voyages, and the condition of the vessels.

§ 10.—Secret Reserves.

This term is used in cases where a Reserve actually exists, which is not disclosed on the face of the Balance Sheet.

Secret Reserves may be formed in the following ways:—

(1) By writing down assets such as Freehold Premises or Investments below their actual value.

(2) By creating excessive Reserves for Bad Debts, &c.

(3) By charging Expenditure to Revenue which is properly of a Capital nature.

The following objections may be made against this practice:—

(1) The resulting Balance Sheet will not correctly represent the state of affairs, as the assets will be under-stated or the liabilities over-stated.

(2) The Profit and Loss Account will not show the correct profit, and consequently the dividend declared may be less than would otherwise have been the case had the full profit been disclosed.

(3) The practice lends itself to the manipulation of profits, and to improper dealings in the shares by the Directors.

On the other hand, the practice of creating Secret Reserves is undoubtedly advantageous in many instances, particularly in the case of Banks, since it enables the dividends to be maintained without violent fluctuation, and prevents the credit of the Bank being injured by the disclosure of extraordinary losses.

These arguments do not apply so strongly in the case of ordinary Trading Companies, but at the same time Secret Reserves are to a certain extent utilized, and the practice cannot be said to be an improper one, so long as the motives underlying it are *bona fide*, and the treatment is to the advantage of the Company generally.

Where the Asset Account is written down, it is inadvisable that it should be written off completely, as this would have the effect of eliminating all record of the asset from the books. A balance of some sort, however small, should remain.

An alternative method is to raise a Reserve Account in respect of the asset, instead of crediting the Asset Account itself. The asset will be shown net in the Balance Sheet.

§ 11.—**Outstanding Liabilities.**

It generally happens that at the date of balancing the accounts certain liabilities have been incurred which have not been entered in the books. Thus there may be rates due but not paid; rent due but not paid; charges for gas, water, electric light, or similar services, which have been rendered, but for which no account has been received.

Any such items must be taken into account, and this can be done in two ways, either by passing an entry through the Journal, debiting the nominal account concerned, and crediting an Outstanding Liabilities Account, or by adjusting the outstanding item in the nominal account itself. The latter method is that which is usually adopted, and the following illustration shows how the accounts are affected.

ILLUSTRATION.—

The books of a manufacturer are closed at 31st December, and the following debit balances appear in the Trial Balance:—

Rent, Rates and Taxes	£765
Gas, Electric Light and Water	£112

One quarter's rent, amounting to £145 is due but not yet paid. A demand note for local rates for the half-year ending 31st March following, amounting to £90 has been received, but has not been paid. There are Outstanding Liabilities not yet brought into account in respect of gas, £16 3s. 0d.; water, £9.

Show the Nominal Accounts as they will appear when the books are closed off.

Dr. RENT, RATES AND TAXES ACCOUNT. *Cr.*

		£ s. d.		£ s. d.
To Balance		765 0 0	By Profit and Loss Account	955 0 0
„ Balance Outstanding—				
Rent	£145 0 0			
Rates (1 Quarter) ..	45 0 0			
		190 0 0		
		£955 0 0		£955 0 0
			By Balance	£190 0 0

Dr. GAS AND ELECTRIC LIGHT ACCOUNT. *Cr.*

		£ s. d.		£ s. d.
To Balance		112 0 0	By Profit and Loss Account	137 3 0
„ Balance Outstanding—				
Gas	£16 3 0			
Water	9 0 0			
		25 3 0		
		£137 3 0		£137 3 0
			By Balance	£25 3 0

It will be seen from the foregoing illustration that the charge to Profit and Loss Account is increased to the extent of the sum outstanding; and the balance brought down is, for the purpose of the Balance Sheet, treated as a liability.

When the charge is paid during the next period it will be debited to the Nominal Account, and will be compensated for by the credit entry, so that it is not charged to Profit and Loss Account again in the succeeding period.

The same principle can be applied to any Nominal Accounts; but, so far as purchases are concerned, it is better where possible to pass all the invoices through the Purchase Day Book during the period to which they relate.

Where the system of debiting the Nominal Accounts concerned and crediting a separate account is adopted, all the credits can be passed through an Outstanding Liabilities Account, which may be regarded as a Suspense Account for the purpose of adjusting the outstandings. In this case the items in the Suspense Account must, at the commencement of the succeeding period, be transferred to the Nominal Accounts.

§ 12.—Payments in Advance.

It is frequently the case that payments for expenses such as rent, rates, insurance, &c., made during a period, refer wholly or partly to a succeeding period. The treatment of such items is analogous to that of Outstanding Liabilities, and the following illustration shows the effect upon the accounts of adjusting them.

ILLUSTRATION—

The books of a manufacturer are closed at 31st December, and included in the Trial Balance is a debit balance of £260 for Rent, Rates and Taxes Account.

The sum of £40 for local rates for the half-year ending 31st March was paid on the 1st December.

Show the adjustment on the Nominal Account for the purpose of the Balance Sheet.

Dr. RENT, RATES AND TAXES ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance	260 0 0	By Balance—	
		One Quarter's Rates, paid in advance	20 0 0
		,, Profit and Loss Account	240 0 0
	£260 0 0		£260 0 0
To Balance	£20 0 0		

It will be seen from the foregoing illustration that the charge against profit for the current period is reduced by the amount chargeable to the succeeding period, and that this is brought down as a debit balance, and will appear upon the Balance Sheet as an asset, "Rates paid in advance." In the succeeding period this will tend to increase the charge against the Profit and Loss Account, and rightly so, as the apportionment relates to that period.

§ 13.—Suspense Accounts.

A Suspense Account has already been referred to in connection with Outstanding Liabilities. As stated in that section, however, it is not usual to open a Suspense Account for dealing with such adjustments, but there may be occasions where such an account is necessary.

The principal utility of the Suspense Account is to provide an account to which one aspect of the transaction can be posted until such time as the correct destination of that posting is ascertained. Thus, if a trader received a bank note in settlement of an account without a covering letter, he could pay it into the bank, entering it on the debit side of the cash book, and until such time as he discovered the name of the person from whom it was received it should be posted to the credit of a Suspense Account.

Suspense Accounts are frequently raised for Advertising and other expenses of a deferred revenue nature, the benefit of which will be received partly in a subsequent period. In such cases it must be seen that a proper proportion is written off periodically.

Occasionally a Profits Suspense Account is raised, with the object of reserving a proportion of the ascertained profits without actually taking it to a Reserve Account.

The use of Suspense Accounts should be avoided as much as possible, and care should be taken that any such accounts open at the date of the Balance Sheet are correctly shown therein.

SYNOPSIS OF CHAPTER V.

GOODS ON SALE OR RETURN, CONSIGNMENT ACCOUNTS, &c.

§ 1.—Treatment of Goods on Sale or Return.

(*a*) Where the goods sent out on sale or return are comparatively small in number.

(*b*) Where the goods sent out on sale or return are considerable in number.

(*c*) Where the goods sent out on sale or return are considerable in number and of considerable value.

2.—Distinction between Consignments and Goods sent out on Sale or Return.

3.—Account Sales.

4.—Entries in the Consignor's Books.

5.—Entries in the Consignee's Books.

6.—Account Current.

7.—Average Date.

8.—Joint Consignment Accounts.

9.—Accounts with Agents.

CHAPTER V.

GOODS ON SALE OR RETURN, CONSIGNMENT ACCOUNTS, &c.

§ 1.—Treatment of Goods sent on Sale or Return.

It is the practice in many businesses to send out goods to customers on approval, but such goods should not be treated in the books as ordinary sales, for the reason that the property therein does not pass to the buyer until he signifies to the seller his acceptance of the goods, or does some act by means of which a sale is expressed or implied. If, therefore, these transactions are primarily treated as sales, profit will be anticipated which may never be actually realised, and the Balance Sheet will in consequence be incorrect as regards the items "Debtors" and "Stock" to the extent of any uncompleted transactions.

The method of treating these items depends upon circumstances and the number of transactions involved, and may be broadly divided under three headings:—

(a) Where the Goods sent out on Sale or Return are comparatively small in number.

The best way to record these is to have a specially ruled form of Day Book, such as the following:—

ILLUSTRATION—

SALE OR RETURN DAY BOOK.

Date. (1)	Particulars (2)	Goods sent on Sale or Return. (3)	Date. (4)	Goods Returned (5)	Goods Sold (6)	Sales Ledger Folio (7)

The procedure will then be as follows :—

(1) When goods are sent out they are entered in Column 3 at selling price, and no other entry is made until definite information has been obtained as to whether the goods are to be kept by the customer or returned.

(2) If the goods are returned, they are extended into Column 5, which, like Column 3, is simply a memorandum column, and does not affect the double entry.

(3) If the goods are sold, they are extended into Column 6, and posted therefrom to the debit of the customer in the Sales Ledger. The total of this column will ultimately be posted to the credit of Sales Account.

(4) The difference between the totals of Columns 5 and 6 taken together, and that of Column 3, will represent the goods outstanding at any given date.

(5) All these transactions will have been entered in this special Day Book at selling price, but the stock of goods outstanding must be valued at cost, and treated in the same way as ordinary stock for Balance Sheet purposes.

(b) Where the Goods sent out on Sale or Return are considerable in number.

The system suggested above cannot be conveniently applied without some modification in cases where the number of goods sent out on sale or return is considerable, owing to the number of outstanding items at balancing periods.

In order to avoid the labour of bringing forward in detail with full particulars of these outstanding items to a fresh section of the book, which would be necessary to enable the various columns to be properly balanced off, a slightly extended ruling of the book is suggested.

The following will be found suitable :—

ILLUSTRATION—

SALE OR RETURN DAY BOOK.

Half-year ending June 30th, 1920.								Half-year ending December 31st, 1920.				
Date.	Particulars.	Goods sent on Sale or Return.	Date returned or sold.	Goods returned.	Goods sold.	Sales Ledger Folio.	Balance 30th June, 1920.	Date returned or sold.	Goods returned.	Goods sold.	Sales Ledger Folio.	Remarks.

At the balancing period the selling value of the goods remaining in the hands of customers will be extended into the Balance Column, and all the columns in the first section cast. The total of the Balance Column, plus the totals of the Goods Returned and Sold Columns, will equal the total of the Goods Sent out on Sale or Return Column.

In the following period, as these goods are sold or returned, the amounts will be extended into the columns provided, and this should easily suffice to complete the record, since it is unlikely that any items will remain open beyond the close of the second period.

A further section of the book will be utilized to record all goods sent out during each current period, and these in their turn will be completed in a similar manner.

(c) Where the Goods sent out on Sale or Return are considerable in number and of considerable value.

In this case it is not wise to rely on a purely memorandum system, which does not readily lend itself to proof, and it is better to have a separate set of books on a Double Entry principle.

These will comprise the following :—

(1) Sale or Return Ledger.

(2) Sale or Return Day Book.

(3) Sale or Return Journal.

The procedure will then be as follows :—

(1) When goods are sent out they are entered in the S. or R. Day Book, and posted therefrom in detail to the debit of the customer in the S. or R. Ledger, and in total at the end of each month or period to the credit of a S. or R. Total Account, which can be kept in the S. or R. Ledger.

(2) When the customer decides to keep the goods, his Account in the S. or R. Ledger must be credited, and his account in the ordinary Sales Ledger debited, for he is now an ordinary debtor. Similarly S. or R. Total Account should be debited, and Sales Account credited. When goods are returned, the customer's Account in the S. or R. Ledger must be credited, and the S. or R. Total Account in the same ledger debited. To record these transactions it is necessary to have a special S. or R. Journal. It should be ruled as follows :—

ILLUSTRATION—

SALE OR RETURN JOURNAL.

Date. (1)	Particulars. (2)	S. or R. Folio. (3)	Sale or Return Ledger. (4)	S. L. Folio. (5)	Sales Ledger. (6)

(3) When goods on sale or return are sold, the customer's name is entered in Column 2, and the amount of the Sale entered in Columns 4 and 6, and posted in detail therefrom to the credit of the customer's Account in the S. or R. Ledger, and to the debit of his Account in the Sales Ledger.

(4) When goods are returned they are simply entered in Column 4, and posted in detail therefrom to the credit of the customer in the S. or R. Ledger.

(5) At the end of each month or period the total of Column 6 is posted to the credit of Sales Account, and that of Column 4 is posted to the debit of S. or R. Total Account in the S. or R. Ledger.

The main principle of the system above described is to render the Sale or Return Ledger self-balancing, *i.e.* the total of the debit balances in the ledger should equal the balance of the Sale or Return Total Account. If this is carried out there is no difficulty in ascertaining the total selling value of goods out on sale or return at any time.

On making up a Balance Sheet and Accounts, the Sale or Return Ledger being self-balancing is outside the Double Entry, and the actual value of the goods out on sale or return, which should be treated as stock, can be arrived at by reducing the balance of each Account in the Sale or Return Ledger to cost.

§ 2.—Distinction between Consignments and Goods sent on Sale or Return.

There is a distinct difference between sending out goods on Consignment and sending out goods on Sale or Return.

In the former case the Consignee (*i.e.* the party to whom the goods are sent) is the agent of the Consignor (*i.e.* the sender), and his business is to sell goods to third parties on behalf of the Consignor, and remit the net proceeds to him.

Usually the Consignee does not indemnify the Consignor against loss by bad debts, but if he does so he is termed a *Del Credere Agent.*

In the case of Sale or Return, the person to whom the goods are sent is not necessarily an agent of the sender, but in the majority of cases is merely an optional purchaser, who must either exercise his option to buy, or return the goods within a specified or reasonable time.

§ 3.—Account Sales.

This is the account rendered by a Consignee to his Consignor showing the gross and net weight of the goods, the price realised, the charges, brokerage and commission deducted, and the net balance for which he is liable.

ILLUSTRATION—

On March 1st, 1920, the A. Mining Company. Limited, consigned to B. Jones and Co. 180 tons of Chrome Ore per S.S. "Menelaus," invoiced at £3 10s. 0d. per ton. The cost of the Ore at the mine was £200, and Railway Freight to the coast £70, all other expenses being paid by the Consignee. On July 1st B. Jones and Co. remitted an Account Sales showing gross weight 180 tons, and tare of bags 7 cwt., the Ore being realised at 80s. per ton. They deducted for Ocean Freight 20s. per ton, for Dock Dues, &c., £45, Marine Insurance £7 10s. 0d., Brokerage 1¼ per cent., and Commission 2½ per cent., remitting draft for the balance. Make out an Account Sales.

ACCOUNT SALES of 180 tons of Chrome Ore ex S.S. "Menelaus," sold by order and for account of the A. Mining Company, Limited.

By B. Jones & Co.,
5, John Street,
London, 1st July, 1920.

		£ s. d.	£ s. d.
Discharged	180 Tons 0 cwt.		
Tare of Bags	7 ,,		
	179 ,, 13 ,, @ 80s. ..		718 12 0
	Charges.		
Ocean Freight at 20s. per ton		180 0 0	
Dock Dues, &c.		45 0 0	
Marine Insurance		7 10 0	
Brokerage at 1¼% on £718 12s. 0d.		8 19 8	
Commission 2½% on £718 12s. 0d.		17 19 4	
			259 9 0
Net proceeds as per draft enclosed			£459 3 0

E. & O. E.,
London, 1st July, 1920.
(Signed) B. Jones & Co.

---

§ 4.—Entries in the Consignor's Books.

When the Consignor wishes to ascertain the exact profit or loss in respect of each Consignment, he should open a separate Consignment Account therefor.

The procedure should be as follows :—

(1) Debit Consignment Account with cost of goods, and credit a "Goods sent on Consignment Account."

(2) Debit Consignment Account with expenses incurred by the Consignor, such as Insurance, Freight, &c., crediting Cash or a Personal Account.

(3) On receipt of Account Sales from the Consignee, debit the Consignee with the gross proceeds, and credit the Consignment Account.

(4) Debit the Consignment Account with expenses, brokerage and commission deducted by the Consignee, and credit the Consignee.

(5) The balance of the Consignment Account will represent profit or loss on Consignment, and be written off to Profit and Loss.

(6) The balance of the Consignee's Account will represent the amount due by him. If he remits draft, debit Bills Receivable, and credit him, so closing the Account.

(7) Transfer the balance of the "Goods sent on Consignment Account" to the credit of Trading Account.

Should the Consignor prepare his Balance Sheet and Accounts prior to the sale of the goods, the debit balance of the Consignment Account will be carried forward, and treated in the Balance Sheet as Stock on Consignment. If a loss is anticipated, an adequate reserve should be made.

ILLUSTRATION—

From the particulars given in the Illustration to § 3 make the entries in the Consignor's books.

CONSIGNOR'S BOOKS.

Dr. CONSIGNMENT ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
Mar. 1	To Ore	200 0 0	July 1	By B. Jones & Co. ..	718 12 0
	" Railway Freight	70 0 0			
July 1	" B. Jones & Co.:				
	Ocean Freight ..	180 0 0			
	Dock Dues	45 0 0			
	Marine Insurance ..	7 10 0			
	Brokerage	8 19 8			
	Commission	17 19 4			
Dec. 31	" Profit and Loss:				
	Profit	189 3 0			
		£718 12 0			£718 12 0

Dr. B. JONES & CO. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
July 1	To Consignment Account ..	718 12 0	July 1	By Consignment Account— Sundry Charges ..	259 9 0
			" 3	" Bill Receivable ..	459 3 0
		£718 12 0			£718 12 0

§ 5.—Entries in the Consignee's Books.

When the goods are received by the Consignee, he will enter particulars thereof in a Consignment Stock Book ruled for Marks and Quantities, according to the nature of the goods, and having a column for invoice

price. This book, however, is merely a Memorandum Book, and no entries will be made in the financial books until a sale takes place. The goods not being the property of the Consignee, must be kept entirely distinct from his own stock, and should not be included in his Balance Sheet.

It is usual for the Consignor to invoice goods at a price in excess of cost, such invoice being termed a *pro formâ invoice.* This is done to prevent the Consignee knowing what the cost price is, and also to stimulate him to sell at the highest price obtainable.

The procedure in the Consignee's books will be as follows :—

(1) Debit the Consignor with any Expenses incurred on behalf of the Consignment by the Consignee, such as Freight, Warehousing, &c., crediting Cash or a Personal Account.

(2) When sales are made, debit the various debtors, and credit the Consignor through a Consignment Sales Day Book, or in smaller cases through the ordinary Journal.

(3) When the Account Sales is prepared, debit the Consignor with the Brokerage, Commission, &c., crediting the latter Accounts.

(4) The balance of the Consignor's Account will represent the amount due to him. If a draft is remitted, debit him and credit Bills Payable, so closing the Account.

ILLUSTRATION—

From the particulars given in the Illustration to § 3 make the entries in the Consignee's books.

CONSIGNEE'S BOOKS.

Dr. THE A. MINING COMPANY, LIMITED. *Cr.*

1920.		£ s. d.	1920		£ s. d.
July 1	To Ocean Freight	180 0 0	July 1	By Sundry Debtors ..	718 12 0
	„ Dock Dues	45 0 0			
	„ Marine Insurance ..	7 10 0			
	„ Brokerage..	8 19 8			
	„ Commission	17 19 4			
	„ Bill Payable	459 3 0			
		£718 12 0			£718 12 0

Detailed particulars will also be entered in the Consignment Stock Book by way of memoranda as described above.

§ 6.—Account Current.

This is an account of mutual dealings and transactions between two parties during a given period, rendered by one party to the other. It is in effect a copy of the ledger account, with the addition of interest in the majority of cases.

Interest is usually calculated at a fixed rate per cent. on each item on either side of the account, from the date of the item to the close of the account. Interest columns should be provided, and the balance of these should be brought into the principal column. It sometimes happens that goods are invoiced prior to the due date of payment, in which case interest will only run from the due date, and not from the date of the invoice.

ILLUSTRATION—

Make out an Account Current to be rendered by A. to B. on 1st February, 1920, in respect of the following transactions :—

1919.	Oct. 1	Goods sold to B. £150.
		Received cash from B. £67 10s. 0d.
	Nov. 1	Paid B. cash £247 10s. 0d.
	Dec. 1	Bought Goods of B. £375.
		Paid to B. cash £225.
1920.	Jan. 1	Bought Goods of B. £540.
		Paid Cash to B. £450.
	Feb. 1	Goods sold to B. £120.

Interest at 6 per cent. to be calculated in months instead of days.

Dr. B. IN ACCOUNT CURRENT WITH A. *Cr.*

Date.	Particulars.	Mths.	Interest.	Principal.	Date.	Particulars.	Mths.	Interest.	Principal.
1919.			£ s. d.	£ s. d.	1919.			£ s. d.	£ s. d.
Oct. 1	To Goods ..	4	3 0 0	150 0 0	Oct. 1	By Cash	4	1 7 0	67 10 0
Nov. 1	„ Cash	3	3 14 3	247 10 0	Dec. 1	„ Goods ..	2	3 15 0	375 0 0
Dec. 1	„ „	2	2 5 0	225 0 0	1920.				
1920.					Jan. 1	„ „	1	2 14 0	540 0 0
Jan. 1	„ „	1	2 5 0	450 0 0	Feb. 1	„ Transfer to Contra ..		3 8 3	
Feb. 1	„ Goods			120 0 0		„ Balance ..			213 8 3
„	„ Interest as per Contra ..			3 8 3					
			£11 4 3	£1,195 18 3				£11 4 3	£1,195 18 3
1920.									
Feb. 1	To Balance ..			£213 8 3					

Note to Illustration.

In rendering an Account Current it is important to know from which point of view the account is to be prepared.

If it is prepared from the point of view of the sender, it will be to all intents and purposes a copy of his Ledger Account with the other party, and the account will be in Account Current with himself.

In the above Illustration the account is rendered by A. to B. from A.'s point of view. It is therefore taken from A.'s ledger, and headed "B. in account with A."

If the account were to be rendered by A. from B.'s point of view, it would be the other way round, and would be headed "A. in account with B."

§ 7.—Average Date.

This is the mean date upon which a single payment can be made in lieu of several payments on various dates.

It is frequently used for the calculation of interest on partners' drawings, and on the realization of book debts, and in other similar instances.

ILLUSTRATION—

A partner has withdrawn the following sums of money during the half-year ending 30th June:—

		£
January	17	150
,,	28	200
February	18	120
March	5	80
April	24	200
May	2	150
June	30	100

Interest is to be charged at 5 per cent. per annum. Find the average date, and calculate the interest.

The procedure is as follows:—

(1) Multiply each amount by the number representing the number of days from the commencement of the period under review.

(2) Divide the total of these calculations by the total of the drawings.

(3) The result will give the number of days from the commencement of the period, fixing the "Average Date."

(4) Calculate the interest from the Average Date to the close of the period under review.

Note.—As fractions of days are not taken into consideration, the result will not be absolutely correct, but allowance for this can very easily be made.

Amount of Drawings.			Date.		No. of Days from 1st Jan.	Product.			
£	s.	d.				£	s.	d.	
150	0	0	Jan.	17	17	2,550	0	0	
200	0	0	,,	28	28	5,600	0	0	
120	0	0	Feb.	18	49	5,880	0	0	
80	0	0	Mar.	5	64	5,120	0	0	
200	0	0	April	24	114	22,800	0	0	
150	0	0	May	2	122	18,300	0	0	
100	0	0	June	30	181	18,100	0	0	
£1,000	0	0				£78,350	0	0	= 78 = March 19 Average date.

Interest at 5 per cent. from March 19th to June 30th = £14 1s. 2d.

This result can be proved by calculating the interest on each separate drawing thus :—

Amount of Drawings.			Date.		No. of Days to 30th June.	Interest.		
£	s.	d.				£	s.	d.
150	0	0	Jan.	17	164	3	7	5
200	0	0	,,	28	153	4	3	10
120	0	0	Feb.	18	132	2	3	5
80	0	0	Mar.	5	117	1	5	7
200	0	0	April	24	67	1	16	8
150	0	0	May	2	59	1	4	3
100	0	0	June	30	—		—	
£1,000	0	0				£14	1	2

It should be observed that there are several methods of working Average Date, but that given is one of the simplest.

§ 8.—Joint Consignment Accounts.

These accounts follow the same lines as Joint Venture Accounts, which are fully discussed in the Chapter on Partnership Accounts. It is important to remember that if no separate set of books is kept for the Joint Account, such an account will be made up from material supplied by both parties, and should not be found in the books of either party, each showing in his books only those transactions which he has entered into on behalf of the Joint Account.

ILLUSTRATION—

Silver & Co. agree to ship on Joint Consignment Account with Gold & Co. goods costing £1,000. Silver & Co. supply the goods, and Gold & Co. ship to the Consignees, Steel & Co., paying Freight, Insurance, &c., £42, Packing Charges £15. Gold & Co. draw on the Consignees at three months to the extent of £750, acceptance being made on behalf of Steel & Co. by their agents in London. The bill was discounted at 5 per cent. and the proceeds remitted to Silver & Co. These transactions may be dated 1st July, 1919. The Account Sales was received by Gold & Co. on February 1st, 1920, together with the net proceeds £630, who then remit to Silver & Co. the amount due to them in final settlement. Interest is to be charged at 5 per cent. per annum in months on the amounts outstanding. Prepare Joint Consignment Account, dividing the balance two-thirds to Silver & Co., and one-third to Gold & Co., and show the accounts in the books of both parties.

JOINT CONSIGNMENT ACCOUNT.

Dr. | *Cr.*

Date.	Particulars.	Months.	Interest.	Principal.	Date.	Particulars.	Months.	Interest.	Principal.
			£ s. d.	£ s. d.				£ s. d.	£ s. d.
1919. July 1	To Goods sent out at cost	7	29 3 4	1,000 0 0	1919. July 1	By Proceeds :			
	,, Freight, Insurance, &c. ..	7	1 4 6	42 0 0		Bill—Steel & Co. ..	7	21 17 6	750 0 0
	,, Packing Charges	7	8 9	15 0 0	1920. Feb. 1				
	,, Discount on Bill	7	5 5	9 7 6		Cash—Steel & Co. ..			630 0 0
1920. Feb. 1	,, Interest as per Contra ..			9 4 6		,, Interest to Contra		9 4 6	
	,, Balance, being Profit			304 8 0					
			£31 2 0	£1,380 0 0				£31 2 0	£1,380 0 0
	To Silver & Co. two-thirds ..			202 18 8					
	,, Gold & Co. one-third			101 9 4		By Balance			304 8 0
				£304 8 0					£304 8 0

GOLD & CO.'S BOOKS.

JOINT CONSIGNMENT ACCOUNT WITH SILVER & CO.

Dr. | *Cr.*

Date.	Particulars.	Months.	Interest.	Principal.	Date.	Particulars.	Months.	Interest.	Principal.
			£ s. d.	£ s. d.				£ s. d.	£ s. d.
1919. July 1	To Freight, Insurance, &c. ..	7	1 4 6	42 0 0	1919. July 1	By Bill : Steel & Co.	7	21 17 6	750 0 0
	,, Packing Charges	7	8 9	15 0 0	1920.				
	,, Discount on Bill	7	5 5	9 7 6	Feb. 1	,, Cash : Steel & Co.			630 0 0
	,, Cash : Proceeds of Bill ..	7	21 12 1	740 12 6		,, Interest to Contra		1 13 3	
1920. Feb. 1	,, Interest as per Contra ..			1 13 3					
	,, P. & L. A/c : one-third Profit			101 9 4					
	,, Cash : Balance of a/c remitted			469 17 5					
			£23 10 9	£1,380 0 0				£23 10 9	£1,380 0 0

SILVER & CO.'S BOOKS.

JOINT CONSIGNMENT ACCOUNT WITH GOLD & CO.

Dr. | *Cr.*

Date.	Particulars.	Months.	Interest.	Principal.	Date.	Particulars.	Months.	Interest.	Principal.
			£ s. d.	£ s. d.				£ s. d.	£ s. d.
1919. July 1	To Goods	7	29 3 4	1,000 0 0	1919. July 1	By Cash : Proceeds of Bill ..	7	21 12 1	740 12 6
1920. Feb. 1	,, Interest as per Contra ..			7 11 3	1920. Feb. 1	,, Cash : Balance of a/c remitted			469 17 5
	,, Profit and Loss A/c— two-thirds Profit ..			202 18 8		,, Interest to Contra		7 11 3	
			£29 3 4	£1,210 9 11				£29 3 4	£1,210 9 11

Note to Illustration.

It should be observed that Gold & Co. must first ascertain the share of profit to which they are entitled from the Joint Consignment Account, before they can arrive at the balance of cash to remit to Silver & Co. This balance is shown as £469 17s. 5d.

On the other hand Silver & Co., after crediting the remittance of the above amount, will find on striking a balance on their joint account with Gold & Co. that there is a profit of £202 18s. 8d., which on reference to the Joint Consignment Account is found to be two-thirds of the profit, the exact amount to which they are entitled. In this way the accounts of the parties as between themselves are proved, inasmuch as in the first instance the profit is inserted before the final amount of cash is arrived at, while in the second instance cash is inserted before the final figure of profit is arrived at.

§ 9.—Accounts with Agents.

In many cases where Agencies are situated in different parts of the world for the sale of a firm's goods, it is not convenient to treat the goods sent out to such Agents as Consignments, and often even in cases of Consignments proper it is not desired to show the profit or loss on each shipment. In such cases Consignment Accounts, as illustrated previously, are not used, but the transactions are dealt with in the manner now to be described.

Memoranda quantity stock accounts will be kept showing the amount of goods sent to the Agent. No entry will be made otherwise than by way of memoranda when the goods are sent to him, except that the proper nominal Accounts will be debited with any expenses incurred. When the Agent's Return is received, Sales Account will be credited with the gross figure, and the Agent's personal account debited. Any expenses he may have incurred will be credited to his personal account, and debited to the proper expense accounts. The Agent's personal account will be credited with moneys remitted by him, and the balance on his account at any time will be the amount due by him for sales effected. In this way the Agent will not be debited with the value of any stock unsold, as this will be regarded as stock belonging to the firm and brought into their Balance Sheet at cost, plus expenses, or at a lower valuation if necessary.

The Agent will send over quantity stock accounts at periodical intervals, which will be agreed with the similar accounts kept at the head office, any differences in stock being adjusted.

Although the system is not recommended it is sometimes considered desirable to debit the Agent's Account with the cost value of goods sent to him but care must be taken, if goods are debited at more than cost, to reduce the value of Stock in his hands at balancing time to cost price, so that no profit is taken before it is actually realised.

Where foreign agents are concerned it may be necessary to record the transactions in currency, in which case Currency as well as Sterling columns must be utilised, and any difference on Exchange must be dealt with as shown in Chapter X., § 6.

SYNOPSIS OF CHAPTER VI.

BILLS OF EXCHANGE, PROMISSORY NOTES, &c.

§ 1.—DEFINITIONS OF—

(*a*) Bills of Exchange.

(*b*) Promissory Notes.

(*c*) Negotiable Instruments.

(*d*) Days of Grace.

2.—STAMP DUTIES ON BILLS OF EXCHANGE AND PROMISSORY NOTES.

3.—SPECIMEN FORMS OF BILLS OF EXCHANGE AND PROMISSORY NOTES.

4.—FORMS OF BILL BOOKS.

(*a*) Bills Receivable and Bills Payable Books.

(*b*) Bills Receivable and Bills Payable Ledgers.

(*c*) Bill Diary.

5.—ACCOMMODATION BILLS.

6.—DISHONOURED BILLS, RETIRED BILLS, SHORT BILLS, &c.

(*a*) Dishonoured Bills.

(*b*) Retired Bills.

(*c*) Short Bills.

(*d*) Discounted Bills.

(*e*) Documentary Bills.

(*f*) Rebated Bills.

CHAPTER VI.

BILLS OF EXCHANGE, PROMISSORY NOTES, &c.

§ 1.—Definitions of Bill of Exchange, Promissory Note, and Negotiable Instrument.

(a) Bill of Exchange.

A *Bill of Exchange* is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

The parties to a bill are three—(1) The *Drawer, i.e.* the party who makes out the bill in the first instance and signs it; (2) The *Drawee, i.e.* the party to whom the bill is addressed; and (3) The *Payee, i.e.* the party to whom the bill is payable.

When the Drawee accepts the bill he signs his name across the face of it, and becomes the *Acceptor*. Until the Drawee becomes the Acceptor he is not liable on the bill. When the bill is negotiated, each party through whose hands it passes must endorse his name on the back thereof, and thereupon becomes an *Endorser*, unless it is a bill to bearer, when it is negotiated by delivery only.

NOTE.—A cheque is the commonest form of Bill of Exchange, being defined by the Bills of Exchange Act, 1882, as a Bill of Exchange drawn on a Banker, payable on demand.

(b) Promissory Note.

A *Promissory Note* is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

The parties to a Promissory Note are two: (1) The *Promissor, i.e.* the party who makes the promise and signs the note; and (2) The *Promisee, i.e.* the party to whom the promise is made. There may be a single Promissor, or there may be two or more Promissors. In the latter case the liability may be either *joint* or *joint and several.* If joint, any judgment without satisfaction against one of the makers of the note is a bar to proceedings against the other joint maker or makers. This is not the case if the note is joint and several.

When a note payable to order is negotiated, each party through whose hands it passes must endorse his name on the back thereof, and thereupon becomes an *Endorser.*

NOTE.—A Bank of England Note is the commonest form of Promissory Note.

(c) Negotiable Instruments.

Negotiable Instruments are documents representing value in money the property in which passes by mere delivery, or endorsement and delivery, such as Promissory Notes, Bills of Exchange, &c.

As a general rule a party cannot give a better title to property than he possesses himself, but in the case of negotiable instruments, provided the holder receives them in good faith, for valuable consideration and without notice of any defect in the title, his title will be good, notwithstanding any defect in that of any prior holder.

ILLUSTRATION—

A Bank Note is a negotiable instrument. Assume B. receives a Bank Note in payment for goods from C., and pays the same into his Bank. B. subsequently discovers that C. had stolen the Bank Note from A., who had notified the Bank of England of his loss. A. will not be able to recover from B., since the latter received the note in good faith and for valuable consideration, and consequently holds a good title thereto.

A Postal Order is not a negotiable instrument, since all orders are issued by the Post Office marked "Not negotiable." Consequently assuming the above case to have occurred in connection with a Postal Order, A. can recover from B. the holder, as B.'s title is defective.

(d) Days of Grace.

Three days are allowed for the payment of all Bills of Exchange and Promissory Notes, except those payable at sight or on demand, consequently in calculating the due date allowance must be made for the three days of grace. Similarly three days must be taken into account in calculating interest or discount.

§ 2.—Stamp Duties on Bills of Exchange and Promissory Notes.

	£	s.	d.
Bill of Exchange payable on demand, at sight, on presentation, or within three days after date or sight	0	0	2
(This stamp may be adhesive.)			
Bill of Exchange drawn and expressed to be payable out of the United Kingdom, when actually paid or endorsed or in any manner negotiated in the United Kingdom :—			
Where the amount exceeds £50 and does not exceed £100 ..	0	0	6
Where amount exceeds £100, for every £100 or fractional part of £100	0	0	6
Where the amount does not exceed £50, the stamp duty thereon is the same as for Inland Bills.			
Bill of Exchange of any kind whatsoever, and Promissory Note of any kind whatsoever (except a Bank Note), drawn and expressed to be payable, or actually paid or endorsed, or in any manner negotiated, in the United Kingdom (except as above)—			
Where amount or value of money for which bill or note is drawn or made does not exceed £10	0	0	2
Exceeds £10 and does not exceed £25	0	0	3
,, £25 ,, ,, ,, £50	0	0	6
,, £50 ,, ,, ,, £75	0	0	9
,, £75 ,, ,, ,, £100	0	1	0
Exceeding £100, for every £100 and fraction of £100 ..	0	1	0

§ 3.—Specimen Forms of Bills and Promissory Notes.

The following are specimen forms of Bills of Exchange :—

I.

London, 1st February, 1920.

£100

Stamp 1s.

Accepted. Payable at the Union Bank of Scotland. Black & Co.

Three months after date pay to my order the sum of One hundred pounds sterling for value received.

To Messrs. Black & Co., Glasgow. F. Smith.

In this case the drawer and the payee are one and the same person,

viz. F. Smith. Black & Co. are the drawees, and on accepting the bill they become the acceptors.

II.

London, 1st February, 1920.

£436

Stamp 5s.

Three months after date pay to F. Blackmore or order the sum of Four hundred and thirty-six pounds for value received.

Accepted.
A. White & Co.

To Messrs. A. WHITE & Co., London. B. WILLIAMS.

In this case the drawer and payee are not the same persons.

III.

London, 1st February, 1920.

£1,000

Stamp 2d.

On demand pay to A. Wilkins or order the sum of One thousand pounds for value received.

To Messrs. A. BLACK & Co., York. A. ROBERTS.

In this case the stamp is only 2d., as the bill is on demand. The drawer and the payee are again distinct parties.

IV.

Calcutta, 1st February, 1920.

£5,000

Stamp £2 10s.

Three months after sight of this first of exchange (second and third of even tenor and date unpaid) pay to the order of Mr. John Jones the sum of Five thousand pounds for value received.

Accepted.
Payable Cotton Bank
F. Wilkinson & Co.

To Messrs. F. WILKINSON & Co., London. R. PHILLIPS & Co.

This is a form of foreign bill drawn in Calcutta payable in this country, and consequently the stamp duty is the ordinary 1s. per cent. Foreign bills are often drawn in duplicate or in a set, each part of the set being numbered, and referring to the other parts. The first bill coming to hand will be presented for acceptance, and the others destroyed as and when received.

V.

Bombay, 1st February, 1920.

Accepted.
Payable at
Credit Lyonnais,
Paris.
M. A. Sabatier.

Fr.50,000

Stamp
10s.

Two months after sight of this our second of exchange (first and third of even tenor and date unpaid) pay to the order of Mr. F. Brown the sum of Fifty thousand francs for value received.

To M. A. Sabatier,
Paris.

F. Wall & Co.

This is an illustration of a bill which is drawn abroad and payable abroad, but is assumed to have been negotiated in this country. Thus the stamp duty is at the rate of 6d. per cent.

The following are some forms of Promissory Notes :—

I.

£50

London, 1st February, 1920.

Stamp
6d.

Three months after date I promise to pay A. White & Co. or order the sum of Fifty pounds for value received.

John Lake.

It will be observed that there are only two parties to a Promissory Note—the promissor and the payee. The stamp duty is *ad valorem*.

II.

£1,000 London, 1st February, 1920.

Stamp 10s.

On demand we promise to pay to Messrs. F. White & Co. the sum of One thousand pounds for value received.

C. D.
E. F.

This is an instance of a *Joint Promissory Note.* The promissors are jointly liable, *i.e.* only one action can be brought, and if judgment is recovered against one of the parties only, another action cannot subsequently be brought against the other party.

If the note had been worded "I promise to pay," and had been signed by both parties as above, the note would have been joint and several. It will be observed that all Promissory Notes, whether on demand or otherwise, bear an *ad valorem* stamp duty in contra-distinction to Bills of Exchange.

III.

London, 1st February, 1920.

£530

Stamp 6s.

Three months after date we jointly and severally promise to pay to the order of Messrs. F. Wilkins & Co. the sum of Five hundred and thirty pounds for value received.

F. T.
W. X.
Y. Z.

This is an instance of a *Joint and Several Promissory Note* where the parties are jointly and severally liable, and, in the event of any one of the parties not contributing his proportion, the holder will have a right of recovery for the full amount of the note against any one of the Promissors, who in his turn will have a right of recovery from the remaining Promissors of their respective contributions.

§ 4.—Forms of Bill Books.

(a) Bills Receivable and Bills Payable Books.

The forms of Bill Books vary considerably in practice according to the circumstances of the business and the class of bills dealt with. The essential point is that the Bill Book should record a concise history of each bill.

The following is a convenient form of Bills Receivable Book which can be adapted to the majority of cases :—

ILLUSTRATION—

BILLS RECEIVABLE BOOK.

No. of Bill.	Date received.	From whom received.	Drawer.	Acceptor.	Where Payable	Date of Bill.	Term.	Date due, including Days of Grace.	Folio in Ledger.	Amount of Bill.	How Disposed of.
	1920.					1920.		1920.		£ s. d.	
1	2nd July	H. Marshall	Self	H. Marshall	London	1st July	1 month	4th Aug.	4	50 0 0	Cash received 4th Aug.
2	1st Aug.	J. Wilson	Self	J. Wilson	Lloyds Bank, Ltd.	31st July	50 days	22nd Sept.	5	70 0 0	Dishonoured 22nd Sept.
3	9th Sept.	F. Johnson	F. Johnson	L. Taylor	London & South Western Bank, Ltd.	3rd Sept.	3 months	6th Dec.	6	90 0 0	Discounted 12th Sept.
										£210 0 0	
										Fo. L. 1	

The following is a convenient form of Bills Payable Book :—

ILLUSTRATION—

BILLS PAYABLE BOOK.

No. of Bill.	Date given.	To whom given.	Drawer.	Payee.	Where Payable.	Date of Bill.	Term.	Date due, including Days of Grace.	Folio in Ledger.	Amount of Bill.	How Disposed of.
	1920.					1920.		1920.		£ s. d.	
1	15th July	W. Black	W. Black	W. Black	Parr's Bank, Ltd.	14th July	60 days	15th Sept.	7	90 0 0	Paid 15th Sept.
2	19th July	F. White	F. White	F. White	,, ,,	18th July	3 months	21st Oct.	8	80 0 0	
3	3rd Aug.	H. Brown	H. Brown	H. Brown	,, ,,	2nd Aug.	2 months	5th Oct.	9	40 0 0	
										£210 0 0	
										Fo. L. 2.	

ILLUSTRATION—

In the books of T. Atkinson, the following debit balances appear on July 1st, 1920:—

	£ s. d.
H. Marshall ...	50 0 0
J. Wilson ...	70 0 0
F. Johnson ...	90 0 0

Also the following credit balances:—

W. Black ...	90 0 0
F. White ...	80 0 0
H. Brown ...	40 0 0

Enter these balances in the Ledger and from the particulars given in the Bills Receivable and Bills Payable books illustrated above, make the necessary entries in T. Atkinson's books.

Dr. Fo. 1. CASH BOOK. *Cr.*

1920.		Fo.	£ s. d.	1920.		Fo.	£ s. d.
Aug. 4	To Bills Receivable ..	1	50 0 0	Sept. 12	By Discount	3	1 1 0
Sept. 12	" " " ..	1	90 0 0	" 15	" Bills Payable ..	2	90 0 0
				" 22	" Noting Charges—J. Wilson's Dishonoured Bill ..	5	5 0

LEDGER.

Dr. Fo. 1. BILLS RECEIVABLE ACCOUNT. *Cr.*

1920.		Fo.	£ s. d.	1920.		Fo.	£ s. d.
Sept. 30	To Sundries	B.R.B. 1	210 0 0	Aug. 4	By Cash	C.B. 1	50 0 0
				Sept. 12	" Cash and Discount	C.B. 1	90 0 0
				" 22	" J. Wilson—Dishonoured Bill	L. 5	70 0 0

Dr. Fo. 2. BILLS PAYABLE ACCOUNT. *Cr.*

1920.		Fo.	£ s. d.	1920.		Fo.	£ s. d.
Sept. 15	To Cash	C.B. 1	90 0 0	Sept. 30	By Sundries	B.P.B. 1	210 0 0

Dr. Fo. 3. DISCOUNT ACCOUNT. *Cr.*

1920.		Fo.	£ s. d.				
Sept. 12	To Sundries	C.B. 1	1 1 0				

Dr. Fo. 4. H. MARSHALL. *Cr.*

1920.		Fo.	£ s. d.	1920.		Fo.	£ s. d.
July 1	To Balance, brought forward		50 0 0	July 2	By Bill Receivable ..	B.R.B. 1	50 0 0

Dr. Fo. 5. J. WILSON. *Cr.*

1920.		Fo.	£ s. d.	1920.		Fo.	£ s. d.
July 1	To Balance, brought forward		70 0 0	Aug. 1	By Bill Receivable ..	B.R.B. 1	70 0 0
Sept. 22	,, Bills Receivable Account—Dishonoured Bill	J. 1	70 0 0				
	,, Noting Charges ..	C.B. 1	5 0				

Dr. Fo. 6. F. JOHNSON. *Cr.*

1920.			£ s. d.	1920.		Fo.	£ s. d.
July 1	To Balance, brought forward		90 0 0	Sept. 9	By Bill Receivable ..	B.R.B. 1	90 0 0

Dr. Fo. 7. W. BLACK. *Cr.*

1920.		Fo.	£ s. d.	1920.			£ s. d.
July 15	To Bill Payable	B.P.B. 1	90 0 0	July 1	By Balance, brought forward		90 0 0

Dr. Fo. 8. F. WHITE. *Cr.*

1920.		Fo.	£ s. d.	1920.			£ s. d.
July 19	To Bill Payable	B.P.B. 1	80 0 0	July 1	By Balance, brought forward		80 0 0

Dr. Fo. 9. H. BROWN. *Cr.*

1920.		Fo.	£ s. d.	1920.			£ s. d.
Aug. 3	To Bill Payable	B.P.B. 1	40 0 0	July 1	By Balance, brought forward		40 0 0

(b) Bills Receivable and Bills Payable Ledgers.

These books are ruled in a similar way to ordinary Bill Books, but are provided with additional money columns to show the disposal of the bills.

They may be made to form part of the Double Entry, in which case it will not be necessary to have Ledger Accounts for Bills Receivable and Bills Payable.

The great advantage of utilising this form of book is that a complete history of each bill is recorded in a manner capable of arithmetical proof.

The following is a form of Bills Receivable Ledger :—

ILLUSTRATION—

Dr. BILLS RECEIVABLE LEDGER. Cr.

No. of Bill.	Date received	From whom received.	Drawer.	Acceptor.	Where Payable.	Date of Bill.	Term.	Date due, including Days of Grace.	Folio in Ledger.	Discount payable.	Amount of Bill.	How Disposed of.					
												Date.	Fo.	Amount received.	Dis-counting Expenses.	Total.	Remarks.

Note to Illustration.

The Discount Payable column provided in the above form is useful in cases where Cash Discount is allowed on receipt of an acceptance in the same way as if payment had been made in Cash. The detail of each money column on the debit side of this Ledger will be posted to the credit of the Personal Account, the totals being posted to the debit of Discount Payable Account and Bills Receivable Account respectively.

(c) Bill Diary.

Where bill transactions are numerous, it is very advisable that all bills, whether receivable or payable, should be entered up in special Bill Diaries, so that the amounts due to be received or paid on any given day can be readily ascertained.

The Diary will be ruled to meet the requirements of each case, separate space being allotted for each day in the year. The bills are entered under the date on which they fall due, allowance being made for the three days of grace.

§ 5.—Accommodation Bills.

An *Accommodation Bill* is one to which a person has put his name, whether as a drawer, acceptor or endorser, without valuable consideration, for the purpose of accommodating some other party who desires to raise money by negotiating it.

There are three common methods of raising money on Accommodation Bills, which are as follows :—

(1) Where one party to convenience another accepts a bill without valuable consideration, to enable the drawer to discount the bill and thus raise money, the drawer repaying the acceptor when the bill becomes due.

ILLUSTRATION—

For B.'s convenience A. accepted a bill on 1st January, 1920, for £100 at three months.

B. discounted the bill forthwith, and paid the proceeds, viz., £95, into his Bank. (NOTE.—The person who discounted the bill charged £5 for so doing.)

On the bill falling due A. met it and notified B., who had arranged to reimburse A. on the due date. B., however, was unable to do this, but arranged to give A. immediately a cheque for £50, and a bill at one month for the balance. This bill was duly met at maturity.

Show the entries as they would appear in the books of both A. and B., and state at what date the bills fell due.

A.'S BOOKS.

Dr. **B.'S ACCOUNT.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Payable	100 0 0	April 4	By Cash	50 0 0
			„	„ Bills Receivable	50 0 0
		£100 0 0			£100 0 0

Dr. **BILLS PAYABLE ACCOUNT.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 4	To Cash	100 0 0	Jan. 1	By B.	100 0 0

Dr. **CASH BOOK.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 4	To B.	50 0 0	April 4	By Bills Payable	100 0 0
May 7	„ Bills Receivable	50 0 0			
		£100 0 0			£100 0 0

Dr. **BILLS RECEIVABLE ACCOUNT.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 4	To B.	50 0 0	May 7	By Cash	50 0 0

B.'S BOOKS.

Dr. **A.'S ACCOUNT.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 4	To Cash	50 0 0	Jan. 1	By Bills Receivable	100 0 0
„	„ Bills Payable	50 0 0			
		£100 0 0			£100 0 0

Dr. **BILLS RECEIVABLE ACCOUNT.** *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To A.	100 0 0	Jan 1	By Cash	95 0 0
			„	„ Discount	5 0 0
		£100 0 0			£100 0 0

Dr. CASH BOOK. *Cr.*

		£ s. d.			£ s. d
1920.			1920.		
Jan. 1	To Bills Receivable	95 0 0	April 4	By A.	50 0 0
			May 7	„ Bills Payable	50 0 0

Dr. DISCOUNT ACCOUNT. *Cr.*

		£ s. d.			
1920.					
Jan. 1	To Bills Receivable	5 0 0			

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
May 7	To Cash	50 0 0	April 4	By A.	50 0 0

NOTE.—The first bill fell due on the 4th April, 1920, and the second on the 7th May, 1920. The three days of grace allowed should be noted.

(2) Where one person draws a bill on another party who accepts the same without valuable consideration. The bill is discounted by the drawer, who remits immediately half the proceeds to the acceptor, remitting the remaining half when the bill becomes due, each party sharing in the expenses of discount.

ILLUSTRATION—

For the mutual convenience of A. and B., A. draws a bill on B. for £100 at three months on 1st January, 1920. B. accepts the bill and returns it to A., who discounts the same with his bankers at 6 per cent., the arrangement being that A. and B. shall share the proceeds equally.

On the bill falling due A. remits his proportion, and the bill is met in due course by B. Show the entries as they would appear in the books of both A. and B.

A.'S BOOKS.

Dr. B.'S ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
Jan. 3	To Cash	49 5 0	Jan. 1	By Bills Receivable	100 0 0
„	„ Discount	15 0			
April 3	„ Cash	50 0 0			
		£100 0 0			£100 0 0

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
Jan. 1	To B.	100 0 0	Jan. 3	By Cash	100 0 0

Dr. CASH BOOK. Cr.

1920.		£ s. d.	1920.		£ s. d.
Jan. 3	To Bills Receivable	100 0 0	Jan. 3	By Discount	1 10 0
April 3	,, Balance	15 0	,,	,, B.	49 5 0
			April 3	,, B.	50 0 0
		£100 15 0			£100 15 0
			April 4	By Balance	15 0

Dr. DISCOUNT ACCOUNT. Cr.

1920.		£ s. d.	1920.		£ s. d.
Jan. 3	To Cash	1 10 0	Jan. 3	By B.	15 0

B.'S BOOKS.

Dr. A.'S ACCOUNT. Cr.

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Payable	100 0 0	Jan. 4	By Cash	49 5 0
			,,	,, Discount	15 0
			April 4	,, Cash	50 0 0
		£100 0 0			£100 0 0

Dr. BILLS PAYABLE ACCOUNT. Cr.

1920.		£ s. d.	1920.		£ s. d.
April 4	To Cash	100 0 0	Jan. 1	By A.	100 0 0

Dr. CASH BOOK. Cr.

1920.		£ s. d.	1920.		£ s. d.
Jan. 4	To A.	49 5 0	April 4	By Bills Payable	100 0 0
April 4	,, ,, ...	50 0 0			
,,	,, Balance	15 0			
		£100 0 0			£100 0 0
			April 5	By Balance	15 0

Dr. DISCOUNT ACCOUNT. Cr

1920.		£ s. d.			
Jan. 4	To A.	15 0			

Note to Illustration.

When it is stated that a bill is discounted at a certain rate per cent., the addition of the words "per annum" is usually implied, and the calculation of the discount should be made on the term of the bill. In practice discount is calculated on the number of days including days of grace, but in these illustrations it has been calculated in months.

(3) Where two parties each draw a bill of equal amount on the other, and discount the other's bill, meeting their own bills when they fall due, and paying the expenses of discounting each other's bill.

ILLUSTRATION—

On 1st January, 1920, A. draws a bill on B. at four months for £500, and B. draws on A. for a similar amount and term. Both bills are accepted and discounted respectively at 5 per cent. At maturity A. meets his own acceptance, but B.'s acceptance is dishonoured, with the result that A., the drawer, is called upon to take it up. The Bank charges expenses on the dishonoured bill 6s. 8d. B. then accepts a new bill at three months for the amount due by him, plus interest at 5 per cent. per annum, which is duly met at maturity.

Show the entries in the books of both parties.

A.'S BOOKS.

Dr. B.'S ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Payable	500 0 0	Jan. 1	By Bills Receivable	500 0 0
May 4	„ Cash: Bill dishonoured and expenses	500 6 8	May 4	„ „ „ ..	506 11 9
„	„ Interest	6 5 1			
		£1,006 11 9			£1,006 11 9

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

1920.		£ s. d	1920.		£ s. d.
Jan. 1	To B.	500 0 0	Jan. 1	By Cash	500 0 0
May 4	„ „	506 11 9	Aug. 7	„ „	506 11 9
		£1,006 11 9			£1,006 11 9

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
May 4	To Cash	500 0 0	Jan. 1	By B.	500 0 0

Dr. CASH BOOK. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Receivable	500 0 0	Jan. 1	By Discount	8 6 8
Aug. 7	„ „ „	506 11 9	May 4	„ Bills Payable	500 0 0
			„	„ B. Bill dishonoured and expenses	500 6 8

Dr. DISCOUNT AND INTEREST ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Cash	8 6 8	May 4	By B.	6 5 1

B.'S BOOKS.

Dr. A.'S ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Payable	500 0 0	Jan. 1	By Bills Receivable	500 0 0
May 4	" " "	506 11 9	May 4	" Bills Payable	500 0 0
			..	" Interest and Expenses ..	6 11 9
		£1,006 11 9			£1,006 11 9

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
May 4	To A.—Bill met by him ..	500 0 0	Jan. 1	By A.	500 0 0
Aug. 7	" Cash	506 11 9	May 4	" "	506 11 9
		£1,006 11 9			£1,006 11 9

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To A.	500 0 0	Jan. 1	By Cash	500 0 0

Dr. DISCOUNT, INTEREST AND EXPENSES ACCOUNT. *Cr.*

1920.		£ s. d.			
Jan. 1	To Cash	8 6 8			
May 4	" A.	6 11 9			

Dr. CASH BOOK. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To Bills Receivable	500 0 0	Jan. 1	By Discount	8 6 8
			Aug. 7	" Bills Payable	506 11 9

§ 6.—Dishonoured Bills, Retired Bills, Short Bills, &c.

(a) Dishonoured Bills.

Where a bill is not met at maturity by the acceptor, it is termed "dishonoured," and the entry in the books of the drawer will then be to credit the Bills Receivable Account and debit the Acceptor.

If the bill has been discounted by the drawer in the meanwhile, and is dishonoured at maturity, the drawer will debit the acceptor and credit cash, if he has discounted with his Bank, or otherwise the personal account of the party with whom he discounted the bill.

Any expenses incurred in noting or protesting the bill are chargeable against the acceptor. The expenses of discounting the bill, however, cannot be charged against the acceptor. The acceptor's account in the drawer's books will be debited with any cash discount which may have been credited to his account on giving the bill, as the condition of allowing such discount was that the bill should be honoured at maturity. This discount must not be confused with the expenses of discounting the bill itself.

Where a bill in the hands of a holder in due course is dishonoured, he will debit the account of the person from whom he received it, and credit Bills Receivable Account.

(b) Retired Bills.

It occasionally happens that a person accepts a bill, and subsequently discovers that it will be inconvenient or impossible for him to meet such bill at maturity, and consequently he approaches the drawer of the bill, and endeavours to make arrangements for the withdrawal of the original bill and the substitution of another in its place, thus giving himself additional time wherewith to find the money required. In such cases interest is usually charged by the drawer for the convenience afforded.

(c) Short Bills.

This is a term given to bills which have been paid into the Bank for collection to await maturity. They must not be confused with discounted bills, and no entry will be made in the books whatever, except by way of memoranda. It frequently happens, however, that for the sake of convenience in the book-keeping, separate bill accounts are kept for the various collecting Banks, which are debited with all bills paid in for collection, the accounts being credited when the bills are met or dishonoured. It should be remembered, however, that the Banks are not debtors for these bills, but only hold them for safe custody.

Under no circumstances should a short bill paid into a Bank for collection be entered in the Cash Book unless there is a special bill column.

(d) Discounted Bills.

The process of discounting a bill is to all intents and purposes equivalent to the sale of a bill for its present worth, subject to its being met at maturity, the use of the money being thus obtained before the due date.

The consideration for so obtaining the money in advance is termed "discount," and is based, in the case of good bills, upon the rates ruling at the date of discounting. This discount has no connection with cash discount or trade discount, and must not be confused therewith, and is more in the nature of interest.

The entries in the books will be to debit Cash and Discount and credit Bills Receivable Account. In many cases the Banks will credit their customers with the face value of the bill, and charge the discount *per contra.* In such an event the bill will be entered in the Cash Book at its full amount, and the discount will be shown as a payment on the credit side, and posted to the Discount Account.

A contingent liability remains on discounted bills until the same mature and are met, since if such a bill is dishonoured the holder has a right of recourse against the drawer. This point is further discussed in Chapter VIII., § 15 (*d*).

(e) Documentary Bills.

Where goods are exported, the general method of obtaining payment therefor is as follows:—The goods in accordance with the order will be delivered to a Shipping Company, and Bills of Lading will be obtained in respect thereof.

A *Bill of Lading* is a Contract of Affreightment stating the terms upon which the goods are to be carried, acting as a receipt for the goods, and also as a document of title to the goods. Three copies are prepared, one kept by the Ship, and two handed to the Consignor, who will forward one to the Consignee.

Where, however, the seller of the goods wishes to obtain payment before the goods are actually delivered, he will draw upon the Consignee for the value of the goods, and attach to the draft a copy of the invoice

and the Bills of Lading. Such a bill is termed a *Documentary Bill.* He will hand these documents to his Banker, who in turn will forward them to his own correspondent at the place where the Consignee of the goods resides. The Consignee, to enable him to get the goods, must have the Bill of Lading, and he cannot get this unless he meets the bill.

As a general rule the fact that a bill has been drawn upon him is notified, and if he accepts such bill before the arrival of the goods he will accept conditionally "cash against documents."

The English Banker, upon receiving notification from his correspondent that the bill has been met, will credit the seller of the goods therewith, subject to his collecting charges.

Alternatively the bill may be discounted in the first instance, the same procedure being followed.

Where goods are imported, payment is usually effected in a similar manner.

(f) Rebated Bills.

In some cases bills are met before the due date, usually for the purpose of obtaining possession of the goods or documents, which cannot be released until the bill is discharged. Where this is done a rebate is allowed, representing interest on the amount of the bill for the period unexpired, based upon the current rate of discount. Such rebate will go to the credit of the Interest or Discount Account, and to the debit of the Bills Payable Account, making, with the actual cash paid, the full amount of the bill.

SYNOPSIS OF CHAPTER VII.

PARTNERSHIP ACCOUNTS.

§ 8.—Dissolution of Partnerships.

(*a*) The application of section 44 of the Partnership Act, 1890.

(*b*) Formula for closing the Partnership books on Dissolution.

(1) Where there is a profit on the realisation of the assets.

(2) Where liabilities are paid in full, but there is a loss on the realisation of the assets.

(3) Where there is a loss on the realisation of the assets, placing one partner's capital account in debit temporarily, obliging him to bring in cash to that extent.

(4) Where there is a loss on the realisation of the assets, placing one partner's capital account permanently in debit, he being insolvent, and the rule in *Garner* v. *Murray* being applied.

(*c*) Dissolution of Partnership on agreed terms.

(*d*) Dissolution of Partnership by death or bankruptcy.

(*e*) Dissolution of Partnership by conversion into a Limited Company.

(*f*) Amalgamation of Sole Traders

9.—Joint Venture Accounts.

(*a*) Where a separate set of books is opened for the transactions of the Joint Venture.

(*b*) Where no separate set of books is opened for the transactions of the Joint Venture.

10.—Miscellaneous Problems in Partnership Accounts.

(*a*) Proportion of one Partner's share borne personally by another.

(*b*) Readjustment of Partners' shares over a period of years.

(*c*) Adjustment in accounts where Interest on Capital has been omitted.

(*d*) Share of one Partner guaranteed at a fixed minimum.

CHAPTER VII.

PARTNERSHIP ACCOUNTS.

§ 1.—Partnership Deeds, and their Relation to the Accounts.

Partnership, as defined by the Partnership Act, 1890, is the relation which subsists between persons carrying on business in common with a view of profit.

The essence of partnership is " mutual agreement," and partnerships at will can, and often do, exist without there being any written agreement or deed. As a rule, however, partnership deeds are drawn up, clearly setting out the facts of the agreement between the partners, and containing provisions for the avoidance of disputes, and to facilitate settlements in the event of death or dissolution. Notwithstanding the existence of a deed, the provisions thereof can be varied or overruled by mutual agreement between the partners.

It is only in cases where insufficient provision is made in the deed, or there is an absence of mutual agreement, that it is necessary to apply the Partnership Act, 1890, and the decisions thereunder, to settle points at issue.

Owing to the conflicting legal decisions on the interpretation of the Partnership Act, 1890, in connection with questions of account, it is most advisable that every deed should specify the precise way in which such matters are to be dealt with.

(a) Clauses relating to Accounts in Partnership Deeds.

The general provisions affecting questions of account that should be contained in all deeds, apart from any special circumstances, are as follows :—

(1) As to capital, and whether each partner should contribute a fixed amount or otherwise.

(2) As to the division of profits and losses between the partners, including capital profits and losses.

(3) Whether the capitals are to be fixed, drawings and profits being adjusted in current accounts, or whether the same are to be adjusted in the capital accounts.

(4) Whether interest on capital or drawings or both should be charged, and the rate thereof.

(5) Whether current accounts (if any) are to bear interest, and the rate thereof.

(6) Whether the drawings in advance of profits are to be limited.

(7) As to partners' salaries (if any).

(8) That proper accounts shall be drawn out at least once a year (all assets of a fluctuating nature being brought in at a valuation), and that the same shall be audited by a professional Accountant, and signed by all the partners.

(9) That such accounts shall be binding on the partners, but can be reopened in the case of manifest error within a specified period.

(10) That the method of determining the amount of goodwill in the event of the retirement or death of any one of the partners shall be fixed.

(11) That in the event of the death of a partner the method of determining his capital shall be stated, whether he is to be entitled to his capital as per the last Balance Sheet, plus interest at a certain rate per cent. in lieu of profits, or whether accounts are to be taken at the date of death, and his share of profits up to that date credited, and whether or not the assets of the partnership are to be subject to revaluation.

(12) That in the event of partnership insurance policies existing, the method of treating the premiums and the division of the policy money shall be determined.

(b) Rules relating to Partnership Accounts in the absence of Agreement.

It should be remembered that § 24 of the Partnership Act, 1890, provides that in the absence of mutual agreement—

(1) Partners are entitled to share equally in the capital and profits, and are required to contribute equally to the losses, whether of capital or otherwise.

(2) Partners are entitled to 5 per cent. interest on advances as apart from capital.

(3) Partners are not entitled before ascertainment of profits to any interest on capital.

(4) Partners are not entitled to remuneration for acting in the partnership business, either by way of salary or otherwise.

The rules as to the treatment of accounts on dissolution are dealt with in § 8 of this Chapter.

§ 2.—The usual Adjustments necessary in Partnership Accounts.

Before ascertaining the amount of divisible profits, the following adjustments are frequently necessary in order to adjust the rights of the partners *inter se* :—

a) Interest on Capital.

By charging interest at a fixed rate, usually 5 per cent. per annum, in respect of the capital employed in a business, it can be seen whether the profits are sufficient (after charging an amount which represents the earning value of the money invested in the business) to justify the continuation thereof with unlimited liability to each of the partners. Apart from this, however, the object of charging interest on capital, where there are two or more partners in a business, is to adjust the rights of the partners *inter se* as regards capital, thus giving the one holding the larger proportion an advantage in respect thereof prior to the division of profits. In those cases where the capitals are fixed, and the shares of profits are in exact proportion to the capitals, the effect of charging interest will make no difference to the ultimate amount which will be credited to each partner, but it is advisable to do so for the first reason mentioned above.

Interest on capital will be calculated on the figure at the commencement of the period, and allowance must be made for any additions of capital or withdrawals therefrom during the period, interest being worked from the exact dates thereof. The Partners' Capital or Current Accounts will be credited with the amount of interest, and interest on Capital Account debited.

The precise effect of omitting to charge interest on capital is as follows :—

(1) If the capitals are equal, and the partners share profits unequally, the partner entitled to the smaller share of profit will lose.

(2) If the partners share profits equally, but the capitals are unequal, the partner with the larger capital will lose.

(3) Where the capitals are unequal, and the partners share profits unequally, the result to the partners depends upon the proportion in which the profits are shared, and the respective amounts of capital held by them.

(b) Interest on Drawings.

Frequently partners' drawings are irregular, and in such cases, if interest thereon is charged, the rights of the partners are exactly adjusted. In numerous cases, however, no interest is charged at all, and the drawings take place by mutual agreement.

Where interest is charged it will be calculated at a fixed rate per cent. from the date of each drawing to the date the accounts are closed, being credited to Interest on Drawings Account and debited to the Partners' Drawing Accounts. A very convenient method of calculating this interest is by finding the average date, and taking interest therefrom up to the close of the period. An illustration of how to ascertain average date is given in Chapter V., § 7.

(c) Partners' Salaries.

There are several cases where it should be agreed to charge partners' salaries before division of profits, and the most important of these are :—

(1) Where one or more of the partners leave the entire or greater part of the management of the business to the remaining partner or partners.

(2) Where there are junior partners, it is often arranged that their share from the business shall consist of a fixed salary, plus a small percentage of the profits after charging such salary.

(3) Where neither of the above cases are operative, but it is desired that the business shall be charged with a proper amount representing the management services of the partners.

The amounts agreed upon as salary should be debited to the Profit and Loss Account, and credited to the Partners' Current or Capital Accounts, as the case may be, unless the same are paid regularly in cash, when they may be debited direct to the nominal account.

ILLUSTRATION—

The following is the Trial Balance of Messrs. A., B. and C., as at 31st December, 1919. Profits and Losses are shared—A. half, B. one-third, C. one-sixth.
Prepare Trading and Profit and Loss Account and Balance Sheet.

	£ s. d.	£ s. d.
Capital—		
A.		10,000 0 0
B.		6,000 0 0
C.		2,000 0 0
Drawing Accounts—		
A.	1,500 0 0	
B.	600 0 0	
C.	200 0 0	
Salary Accounts—		
B.	500 0 0	
C.	200 0 0	
Sales		33,000 0 0
Purchases	6,000 0 0	
Loan on Mortgage		3,000 0 0
Machinery and Plant	4,500 0 0	
Land, Buildings, &c.	6,000 0 0	
Creditors		1,500 0 0
Wages	14,000 0 0	
Salaries	1,000 0 0	
Debtors	7,500 0 0	
Trade Expenses	750 0 0	
Travellers' Commission and Expenses	1,400 0 0	
Rates and Taxes	120 0 0	
Bills Receivable	900 0 0	
Bad Debt Reserve Account		200 0 0
Insurance	30 0 0	
Bad Debts	150 0 0	
Carriage Inwards	200 0 0	
" Outwards	250 0 0	
Stock 31st December, 1918	6,000 0 0	
Cash at Bank	875 0 0	
" on Deposit	3,000 0 0	
" in Hand	25 0 0	
	£55,700 0 0	£55,700 0 0

Charge Depreciation on Land and Buildings at 2½ per cent
" " Machinery, &c., at 5 per cent.
" Interest on Capital at 5 per cent.
" Interest on Drawings at 4 per cent.
Average dates of Drawings—A. 30th June; B. 31st May; C. 15th November.
Provide Interest on Loan one year at 5 per cent.
Adjust the Bad Debt Reserve Account to 4 per cent. on the Outstanding Debtors
Stock 31st December, 1919, £5,000.

BALANCE SHEET, 31st December, 1919.

Dr.

	£	£ s. d.	£ s. d.
To Capital Accounts—			
A. Balance 1st Jan., 1919		10,000 0 0	
Add Interest on Capital		500 0 0	
„ Profit		2,960 0 0	
		13,460 0 0	
Less Drawings	1,500		
Interest on do.	30		
		1,530 0 0	
			11,930 0 0
B. Balance 1st Jan., 1919		6,000 0 0	
Add Interest on Capital		300 0 0	
„ Profit		1,973 6 8	
		8,273 6 8	
Less Drawings	600		
Interest on do.	14		
		614 0 0	
			7,659 6 8
C. Balance 1st Jan., 1919		2,000 0 0	
Add Interest on Capital		100 0 0	
„ Profit		986 13 4	
		3,086 13 4	
Less Drawings	200		
Interest on do.	1		
		201 0 0	
			2,885 13 4
„ Sundry Creditors— On Open Account			1,500 0 0
„ Loan on Mortgage		3,000 0 0	
Interest		150 0 0	
			3,150 0 0
			£27,125 0 0

Cr.

	£	£ s. d.
By Land, Buildings, &c.	6,000	
Less Depreciation 2½%	150	
		5,850 0 0
„ Machinery and Plant	4,500	
Less Depreciation 5%	225	
		4,275 0 0
„ Stock		5,000 0 0
„ Debtors	7,500	
Less Reserve for Bad Debts	300	
		7,200 0 0
„ Bills Receivable		900 0 0
„ Cash :—		
On Deposit Account	3,000	
On Current Account	875	
In Hand	25	
		3,900 0 0
		£27,125 0 0

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st December, 1919.

Dr.

		£ s. d.
To Stock 31st Dec., 1918		6,000 0 0
„ Purchases		6,000 0 0
„ Wages		14,000 0 0
„ Carriage Inwards		200 0 0
„ Balance, being Gross Profit		11,800 0 0
		£38,000 0 0
To Salaries		1,000 0 0
„ Partners' Salaries		700 0 0
„ Trade Expenses		750 0 0
„ Travellers' Commission, &c.		1,400 0 0
„ Insurance		30 0 0
„ Rates and Taxes		120 0 0
„ Carriage Outwards		250 0 0
„ Depreciation		375 0 0
„ Interest on Loan		150 0 0
„ Bad Debts		250 0 0
„ Interest on Capital—		
A.	£500	
B.	300	
C.	100	
		900 0 0
„ Balance, being net profit		5,920 0 0
		£11,845 0 0
To Capital Accounts—	£ s. d.	
A. one-half	2,960 0 0	
B. one-third	1,973 6 8	
C. one-sixth	986 13 4	
		5,920 0 0
		£5,920 0 0

Cr.

		£ s. d.
By Sales		33,000 0 0
„ Stock 31st Dec., 1919		5,000 0 0
		£38,000 0 0
By Balance		11,800 0 0
„ Interest on Drawings—		
A.	£30	
B.	14	
C.	1	
		45 0 0
		£11,845 0 0
By Balance		5,920 0 0
		£5,920 0 0

§ 3.—Partners' Fixed Capital Accounts, Current Accounts and Loan Accounts.

(a) Partners' Fixed Capital and Current Accounts.

In many cases the Partnership Deed fixes the amount of capital to be contributed by each partner, and it is very usual in practice to find the capital accounts kept at this figure, all profits, interest on capital, partners' salaries and drawings being dealt with through current accounts, the balances of which are carried forward from time to time, and may or may not be subject to interest. Where they are subject to interest, this is generally at a lower rate than on the capitals.

This method of keeping the accounts should always be adopted, since it enables a clear distinction to be shown in the accounts between capital and accumulations of undrawn profit.

(b) Partners' Loan Accounts.

Where a partner advances money to the firm, it is extremely important that a separate loan account should be kept in respect thereof, as under the Partnership Act, 1890, loans from partners have priority over capital on dissolution. The interest on such loans should therefore not be credited to the capital accounts, but to the current or loan accounts, and should preferably be settled in cash.

ILLUSTRATION—

Prepare Trading and Profit and Loss Account and Balance Sheet, from the following Trial Balance of Messrs. X., Y., Z. and Co., Engineers, as at 31st March, 1920.

	£ s. d.	£ s. d.
Trade Expenses	550 0 0	
Wages	1,250 0 0	
Salaries	175 0 0	
Rent and Rates	145 0 0	
Purchases	8,350 0 0	
Sales		12,110 0 0
Commission	78 0 0	
Bad Debts	35 0 0	
Discount		20 0 0
Plant and Tools 31st March, 1919	1,550 0 0	
Stock do. do.	1,630 0 0	
Cash at Bank	1,506 0 0	
Office Furniture	200 0 0	
Sundry Debtors	2,750 0 0	
" Creditors		1,670 0 0
Cash in Hand	7 0 0	
Capital Accounts—		
X.		2,000 0 0
Y.		1,500 0 0
Z.		1,200 0 0
X. Loan Account		1,000 0 0
Current Accounts—		
X.	570 0 0	
Y.	400 0 0	
Z.	304 0 0	
	£19,500 0 0	£19,500 0 0

Make provision for the following :—

	£
Three days' Wages	33
Trade Expenses	18
Audit Fee	35
Bad Debts	40
Discounts	55

10 per cent. Depreciation on Furniture.

5 per cent. Interest on Capital.

5 per cent. Interest on Loan from X. for one year.

Stock at 31st March, 1920, amounted to £1,903, and an account taken of the Plant and Tools amounted to £1,700.

Profits and Losses to be divided equally, the Capital Accounts being fixed.

Dr. BALANCE SHEET, 31st March, 1920. *Cr.*

	£ s. d.	£ s. d.
To Capital Accounts :—		
X.	2,000 0 0	
Y.	1,500 0 0	
Z.	1,200 0 0	4,700 0 0
,, Loan Account : X. ..		1,000 0 0
,, Current Account : X.—		
Profit	494 13 4	
Interest on Capital ..	100 0 0	
,, ,, Loan ..	50 0 0	
	644 13 4	
Less Drawings	570 0 0	74 13 4
,, Current Account : Y.—		
Profit	494 13 4	
Interest on Capital ..	75 0 0	
	569 13 4	
Less Drawings	400 0 0	169 13 4
,, Current Account : Z.—		
Profit	494 13 4	
Interest on Capital ..	60 0 0	
	554 13 4	
Less Drawings	304 0 0	250 13 4
,, Sundry Creditors :—		
On Open Account ..	1,670 0 0	
On Charges Account ..	86 0 0	1,756 0 0
		£7,951 0 0

	£ s. d.	£ s. d.
By Plant and Tools.. ..		1,700 0 0
,, Office Furniture	200 0 0	
Less Depreciation 10%..	20 0 0	180 0 0
,, Stock		1,903 0 0
,, Sundry Debtors	2,750 0 0	
Less Reserves for Bad Debts .. .. £40 & Discounts .. 55	95 0 0	2,655 0 0
,, Cash :—		
At Bank	1,506 0 0	
In Hand	7 0 0	1,513 0 0
		£7,951 0 0

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. for the Year ending 31st March, 1920. *Cr.*

		£	s.	d.			£	s.	d.
To Stock 31st March, 1919 ...	£1,630				By Sales...		12,110	0	0
,, Plant and Tools 31st March, 1919...	1,550				,, Stock 31st March, 1920	£1,903			
		3,180	0	0	,, Plant and Tools 31st March, 1920 ...	1,700			
,, Purchases	...	8,350	0	0			3,603	0	0
,, Wages (£1,250+£33)... ...	...	1,283	0	0					
,, Balance, being Gross Profit	...	2,900	0	0					
		£15,713	0	0			£15,713	0	0
		£	s.	d.			£	s.	d.
To Trade Expenses (£550+£18)	...	568	0	0	By Balance		2,900	0	0
,, Salaries...	...	175	0	0					
,, Rent and Rates	...	145	0	0					
,, Commission	...	78	0	0					
,, Bad Debts (£35+£40) ...	...	75	0	0					
,, Discount (£55—£20)	...	35	0	0					
,, Depreciation on Furniture ...	...	20	0	0					
,, Audit Fee	...	35	0	0					
,, Interest on Loan	...	50	0	0					
,, ,, ,, Capital :—									
X.	£100								
Y.	75								
Z.	60								
		235	0	0					
,, Balance, being Net Profit ...	...	1,484	0	0					
		£2,900	0	0			£2,900	0	0
		£	s.	d.			£	s.	d.
To Current Accounts :—					By Balance		1,484	0	0
X. one-third	...	494	13	4					
Y. one-third	...	494	13	4					
Z. one-third	...	494	13	4					
		£1,484	0	0			£1,484	0	0

Note to Illustration.

Where it is required to draw Final Accounts from a preliminary Trial Balance after making various adjustments, as in the above case, it is important to note that each adjustment should be made into its proper account in the Trading or Profit and Loss Account, and not shown separately. For instance, the fact that a certain amount is outstanding for wages only means that wages to that extent not having been paid at the date of the Balance Sheet the balance of the Wages Account as representing the wages for the period is incorrect accordingly, and requires adjustment before being finally transferred to Trading Account. Although a bracketed note has been made in the above solution of the adjustments, this has only been done for the reader's convenience. In practice no such note would appear.

The method of treating Plant and Tools on revaluation is dealt with in Chapter XIV., § 6

§ 4.—The Adjustment of Partnership Accounts under Single Entry.

Where Partnership Accounts are kept under Single Entry, and it is not desired to raise the final accounts by way of conversion into Double Entry, it is quite possible to arrive at the profit made for the particular period, provided a proper Statement of Affairs is available at the com-

mencement, together with full particulars of all partners' dealings during the period, in the shape of drawings on account of profit, and additions to, or withdrawals from, capital, loans, &c.

The methods necessary to arrive at profits on this basis are fully dealt with in Chapter I., § 5, and it is not necessary to recapitulate them here.

Great care must be exercised, where there is no Cash Book kept, to see that all partners' drawings, &c., have been brought into account.

Once the profit has been ascertained, the adjustment in respect of interest on capital, salaries, &c., if any, as between the partners can very easily be made, and the final balances on their capital or current accounts ascertained.

ILLUSTRATION—

A. and B. are in partnership, sharing profits and losses, two-thirds and one-third respectively. The books are kept on a Single Entry system, and their Statement of Affairs, dated 31st December, 1918, showed their position to be as follows :—

A. AND B.

Dr. STATEMENT OF AFFAIRS, 31st December, 1918. *Cr.*

	£ s. d.		£ s. d.
To Capitals—		By Freehold Buildings	6,000 0 0
A.	10,000 0 0	,, Plant and Machinery	2,000 0 0
B.	4,000 0 0	,, Office Furniture	500 0 0
,, Creditors	5,000 0 0	,, Stock	4,000 0 0
,, Loan	1,000 0 0	,, Debtors	6,000 0 0
,, Bills Payable	500 0 0	,, Bills Receivable	1,500 0 0
		,, Cash	500 0 0
	£20,500 0 0		£20,500 0 0

On the 31st December, 1919, the books disclosed the following facts :—Debtors £8,000, Creditors on Open Account £8,500, Creditors on Loan Account £1,600, and Cash £800. The Stock was valued at £4,200, and the Bills Receivable amounted to £1,400.

An examination of the Cash Book showed that during the year A. had drawn on account of profits £1,500 and B. £600. A. had in addition withdrawn £2,000 on account of capital on the 30th June, 1919.

The Partners agree to reduce the previous valuation of the Plant and Machinery by 5 per cent. and the Office Furniture by 10 per cent., by way of depreciation, and to charge 5 per cent. by way of Interest on Capital.

Show—

(1) A Statement of Profit, dividing the balance between A. and B.

(2) A Statement of Affairs showing the position as at 31st December, 1919.

Dr. STATEMENT OF PROFIT, 31st December, 1919. *Cr.*

	£	s.	d.		£	£	s.	d.
To Creditors	8,500	0	0	By Freehold Buildings		6,000	0	0
" Loan	1,600	0	0	" Plant and Machinery ..	2,000			
" Capitals 1st Jan., 1919—				*Less* Depreciation 5% ..	100			
A.	10,000	0	0			1,900	0	0
B.	4,000	0	0	" Office Furniture	500			
Balance, being Profit..	2,750	0	0	*Less* Depreciation 10% ..	50			
						450	0	0
				" Stock		4,200	0	0
				" Debtors		8,000	0	0
				" Bills Receivable		1,400	0	0
				" Cash		800	0	0
				" Partners' Drawings—				
				A. on A/c of Capital ..	2,000			
				" " Profits ..	1,500			
						3,500	0	0
				B. " " Profits		600	0	0
	£26,850	0	0			£26,850	0	0

	£	s.	d.		£	s.	d.
To Interest on Capital—				By Balance	2,750	0	0
A. 5% on £10,000 for 6 months and 5% on £8,000 for 6 months	450	0	0				
B. 5% on £4,000	200	0	0				
" Profit—							
A. two-thirds	1,400	0	0				
B. one-third	700	0	0				
	£2,750	0	0		£2,750	0	0

A. AND B.

Dr. STATEMENT OF AFFAIRS, 31st December, 1919. *Cr.*

		£	s.	d.			£	s.	d.
To Capitals :—					By Freehold Buildings		6,000	0	0
A. Balance 1st Jan., 1919	£10,000				" Plant and Machinery ..	£2,000			
Add Interest on Capital	450				*Less* Depreciation 5% ..	100			
" Profit	1,400						1,900	0	0
	11,850				" Office Furniture	500			
Less Drawings—					*Less* Depreciation 10% ..	50			
On Capital A/c .. £2,000							450	0	0
" Profit A/c .. 1,500					" Stock		4,200	0	0
	3,500				" Debtors		8,000	0	0
		8,350	0	0	" Bills Receivable		1,400	0	0
B. Balance 1st Jan., 1919	4,000				" Cash		800	0	0
Add Interest on Capital ..	200								
" Profit	700								
	4,900								
Less Drawings	600								
		4,300	0	0					
" Creditors :—									
On Open Account..		8,500	0	0					
" Loan "		1,600	0	0					
		£22,750	0	0			£22,750	0	0

§ 5.—Goodwill in Partnership Accounts.

(a Definition of Goodwill.

Goodwill may be defined as the value attaching to the reputation of a business, and to the likelihood that custom will continue to be attracted in the future as in the past, notwithstanding change in the proprietorship. Goodwill may originate, broadly speaking, in one of three ways, or a combination of them :—

(1) By means of the reputation of the article produced as apart from the personality of the proprietors.

(2) By means of the business possessing special advantages in the shape of local or partial monopoly, patents, trade marks, situation of premises, &c.

(3) By the personal reputation and influence of the proprietors.

The value of Goodwill is usually based on the average profits for a term of years from three to five, but in many cases, as for example retail shops, it is based on the turnover. In the case of a Partnership Goodwill based mainly on the question of personal reputation, the value from a purchasing point of view is greatly dependent on whether the retiring owner is going out of the business, or whether he or some of his partners are continuing.

(b) Methods ot treating Goodwill in the case of an Incoming Partner.

There are various ways in which Goodwill may be treated on the occasion of an incoming partner, but the following or a combination of them are the most usual :—

(1) An amount is raised in the old firm's books to represent Goodwill, being credited to the old partners' capital accounts in proportion as they share profits or losses, and debited to a Goodwill Account. The new partner then may or may not bring in capital according to the agreement. In any event, whatever he does bring in will go to the credit of his capital account. The effect of this method is to increase the old partners' capital accounts, thus giving them an advantage over the incoming partner in respect of capital and interest thereon.

ILLUSTRATION—

The following is the Balance Sheet of the firm of A. and B., who share profits, two-thirds and one-third respectively.

A. AND B.

Dr. BALANCE SHEET. *Cr.*

		£ s. d.			£ s. d.
To Capital Accounts :—			By Land and Buildings ..		5,250 0 0
A.	£8,500		„ Plant and Machinery ..		3,075 0 0
B.	3,500		„ Stock-in-Trade		4,500 0 0
		12,000 0 0	„ Book Debts..	£3,000	
			Less Reserve	150	
„ Sundry Creditors		3,975 0 0			2,850 0 0
			„ Cash at Bank		300 0 0
		£15,975 0 0			£15,975 0 0

They agree to admit C. into partnership, giving him a one-fifth share on the terms that Goodwill to the extent of £1,200 is first to be credited to the old partners according to their share of profits; C. then to bring in Capital to the extent of one-quarter of the combined capitals of A. and B. after adjustment. A. and B.'s proportions of profit in the new firm are to be in the same ratio between themselves as before.

Show Journal entries recording these transactions, and prepare the Balance Sheet of the new firm, assuming C. to have brought in the requisite cash, stating the proportion in which profits will be divided in future.

JOURNAL.

	£ s. d.	£ s. d.
Goodwill .. .. *Dr.*	1,200 0 0	
To A. Capital Account		800 0 0
B. „ „		400 0 0
Being creation of Goodwill as agreed on admittance of C. into partnership.		
Cash .. .. *Dr.*	3,300 0 0	
To C. Capital Account		3,300 0 0
Being Capital brought in, one-fourth of £12,000 and £1,200.		

A., B. AND C.

Dr. BALANCE SHEET. *Cr.*

		£ s. d.			£ s. d.
To Capital Accounts—			By Goodwill		1,200 0 0
A.	£8,500		„ Land and Buildings		5,250 0 0
Add Goodwill	800		„ Plant and Machinery		3,075 0 0
		9,300 0 0	„ Stock-in-Trade		4,500 0 0
B.	3,500		„ Book Debts	£3,000	
Add Goodwill	400		*Less* Reserve	150	
		3,900 0 0			2,850 0 0
C.		3,300 0 0	„ Cash at Bank		3,600 0 0
„ Sundry Creditors		3,975 0 0			
		£20,475 0 0			£20,475 0 0

C. getting one-fifth of the profits, the remaining four-fifths must be divided— $\left.\begin{array}{l} \frac{2}{3} \times \frac{4}{5} \text{ to A.} = \frac{8}{15} \\ \frac{1}{3} \times \frac{4}{5} \text{ to B.} = \frac{4}{15} \end{array}\right\} = \frac{12}{15}$

leaving $\frac{1}{5}$ to C. $= \frac{3}{15}$

Note to Illustration.

It should be noted that when Goodwill is created in this way the amount is credited to the old partners in the proportion in which they share profits and losses, and not in proportion to their capitals, the argument being that the partner who takes the larger share of the profits is supposed to have the greater influence, and consequently to have created the larger share of the Goodwill. No proportion of this Goodwill must be credited to the new partner, since at the date of his joining the firm he has had no share in creating it. If the new partner brings in any Goodwill of his own by way of personal connection, this is taken into consideration in determining his share of profits.

(2) An amount is fixed representing the proportion of goodwill which the incoming partner is about to purchase, and which he has to contribute in cash in addition to any capital which he may or may not be required to bring in, the cash so brought in remaining in the business to form additional working capital. In such a case the cash will be debited, and the old partners' capital accounts credited, in the proportion in which they share profits or losses, the cash brought in as capital by the new partner being credited to his capital account. It will be noted that under this method no asset account representing goodwill will appear in the new partnership books, the amount paid by the incoming partner merely representing premium paid by him to the old partners for the privilege of being admitted into the firm.

ILLUSTRATION—

The following is the Balance Sheet of the firm of A. and B., who share profits, two-thirds and one-third respectively :—

A. AND B.

Dr. BALANCE SHEET. *Cr.*

		£ s. d.		£ s. d.
To Capital Accounts—			By Freehold Buildings..	4,620 0 0
A.	£7,400		,, Office Furniture	400 0 0
B.	5,000		,, Stock-in-Trade	3,800 0 0
		12,400 0 0	,, Debtors	6,080 0 0
,, Creditors		4,000 0 0	,, Bills Receivable	2,400 0 0
,, General Reserve		1,500 0 0	,, Cash at Bank	600 0 0
		£17,900 0 0		£17,900 0 0

They agree to admit C. into partnership on condition that he pays a sum of £2,400 (to be left in the business) for a quarter share of the Goodwill, and brings in £4,000 Capital.

A. and B. on their part agree to allow £900 of the General Reserve to remain as a provision for Bad Debts, and also to allow 5 per cent. off the Freehold Buildings and 15 per cent. off the Office Furniture.

Show by Journal entry the necessary adjustments, and prepare a Balance Sheet of the new partnership, assuming that C. has fulfilled his obligations to the firm.

JOURNAL.

		£ s. d.	£ s. d.
Cash	*Dr.*	2,400 0 0	
To Capital Accounts :—			
A. two-thirds			1,600 0 0
B. one-third			800 0 0
Being payment by C. for a quarter share in the Goodwill.			

		£ s. d.	£ s. d.
Cash	*Dr.*	4,000 0 0	
To C. Capital Account			4,000 0 0
Being Capital introduced by C.			

		£ s. d.	£ s. d.
General Reserve Account	*Dr.*	600 0 0	
To Capital Accounts :—			
A.			400 0 0
B.			200 0 0
Being Transfer from General Reserve Account to leave balance on that account of £900 as reserve for Bad Debts.			

		£ s. d.	£ s. d.
Capital Accounts —	*Dr.*		
A.		194 0 0	
B.		97 0 0	
To Sundry Assets—			
Freehold Buildings			231 0 0
Office Furniture			60 0 0
		£291 0 0	£291 0 0
Being provision for Depreciation on Freehold Buildings @ 5% and on Office Furniture @ 15%.			

NOTE.—These Journal entries could be combined, but for the sake of clearness they have been shown separately.

A., B. AND C.

Dr. BALANCE SHEET. *Cr.*

		£ s. d.			£ s. d.
To Capital Accounts :—			By Freehold Buildings ..	.. £4,620	
A.	.. £9,206		*Less* Depreciation 5%	.. 231	
B.	.. 5,903				4,389 0 0
C.	.. 4,000		" Office Furniture ..	.. 400	
		19,109 0 0	*Less* Depreciation 15%	.. 60	
" Creditors		4,000 0 0			340 0 0
			" Stock-in-Trade ..	..	3,800 0 0
			" Debtors	.. 6,080	
			Less Reserve ..	.. 900	
					5,180 0 0
			" Bills Receivable ..	.. ..	2,400 0 0
			" Cash at Bank ..	.. ..	7,000 0 0
		£23,109 0 0			£23,109 0 0

(3) The third method is precisely similar to the second, with the exception that the money paid by the incoming partner for goodwill is not left in the business as working capital, but is paid to the old partners personally in proportion as they share profits and losses. In this case there will be no entries in the books, unless, as frequently happens, the amount is first paid into the firm's account and then withdrawn, in order to keep some record of the transaction. Naturally this method is the least advantageous of all to the incoming partner, as the money which he furnishes for goodwill is not utilised for the general benefit of the business.

(c) Goodwill affecting Outgoing Partners.

Where a partner retires or dies, it is usual in most cases for his share of the goodwill to be determined, either according to the terms of the original agreement or by valuation, and such an amount to be credited to his capital account as represents his proportion thereof according to his share of the profits.

An alternative arrangement is sometimes made whereby the representatives of the deceased partner receive, in lieu of an amount representing his share of the goodwill, an annuity, or a proportion of the profits, for a certain term of years.

(d) Life Assurance Policies to provide for part-payment of Goodwill.

It is becoming very customary for partners to effect assurance on their own lives, either jointly or severally, for the purpose of providing ready cash to pay out either the whole or a portion of a deceased partner's share of goodwill, and in many cases this arrangement is applied to capital also. One of the principal advantages of this method is to afford a means of immediate payment of at least a portion of the amount due without straining the financial arrangements of the business, it being frequently arranged to pay the balance (if any) by instalments with interest. This is particularly advantageous where the surviving partner or partners may not be in a position to introduce a large sum of additional capital at a moment's notice for the purpose of paying out the deceased partner's share.

There are various ways of dealing with the premiums paid in respect of these policies, but the following system is the one recommended :—

The premiums paid should be charged to the Profit and Loss Account of the firm as a business expense, and in the event of the death of one of the assured the policy money should be divided in the proportion in which the partners share profits or losses, and credited to their capital accounts, the deceased partner's capital account being credited with his share of the policy money. It should be noted that this amount does not in any way represent the deceased partner's share of goodwill, but is additional to it, and the object of the procedure is chiefly to provide ready cash.

ILLUSTRATION—

A. and B. are in partnership, sharing profits in the proportion of two-thirds and one-third respectively, and in order to provide a ready means of immediate payment of a portion of the amount due to either of them, in the event of decease, in respect of both Capital and Goodwill, an assurance was effected on their lives jointly for £9,000 without profits, at an annual premium of £350, which was charged each year to the Profit and Loss Account.

A. died on the 31st March, 1920, three months after the annual accounts had been prepared, and, in accordance with the Partnership Deed, his share of the profits to the date of death was estimated on the exact basis of the profits for the preceding year. In addition to this the Deed of Partnership provided for Interest on Capital at 5 per cent. per annum on the balance standing to the credit of the Capital Account at the date of the last Balance Sheet, and also for Goodwill, which was to be brought into account at two years' purchase of the average profits for the last three years, prior to charging the above-mentioned insurance premiums, but after charging Interest on Capital.

A.'s Capital on the 31st December, 1919, stood at £12,000, and his drawings from then to the date of death amounted to £900.

The net profits of the business for the three years ending 31st December, 1917–1919, amounted to £3,000, £3,800, and £3,700 respectively, after charging Interest on Capital and Insurance Premiums.

You are instructed to adjust A.'s Capital Account as at the date of death for a settlement with his Executors.

Dr. A.'S CAPITAL ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Drawings	900	0	0	By Balance	12,000	0	0
„ Balance	23,000	0	0	„ Interest on Capital 5 % for 3 months	150	0	0
				„ Profit to date of death	616	13	4
				„ Goodwill	5,133	6	8
				„ Insurance Policy, two thirds of £9,000	6,000	0	0
	£23,900	0	0		£23,900	0	0
				By Balance	£23,000	0	0

Note to Illustration.

The figure for Goodwill is arrived at as follows:—

	£	s.	d.
Profit 1917 £3,000 + Insurance Premium £350 =	3,350	0	0
,, 1918 3,800 + ,, ,, 350 =	4,150	0	0
,, 1919 3,700 + ,, ,, 350 =	4,050	0	0
	3) 11,550	0	0
Three years' average profit	3,850	0	0
			2
Total amount of Goodwill	£7,700	0	0

A.'s Share = two-thirds of £7,700 = £5,133 6s. 8d.

(e) Goodwill on the Sale of a Partnership Business to a Company.

Where a Partnership business is sold to a Limited Company, the Company usually has to pay, in addition to the purchase price of the actual assets, a sum for Goodwill. Such an amount represents a profit, and will be transferred to the partners' capital accounts in proportion as they share profits and losses. Goodwill of this nature, as far as it relates to the Company and affects the Company's books, will be dealt with in Chapter VIII., § 10.

(f) The Treatment of the Goodwill Account in the Books of a Partnership.

Where an asset of Goodwill is created in Partnership Accounts, it is advisable and financially prudent to write the same down over a period of years, though whether or not this is done depends upon the agreement between the partners.

If at the time Goodwill has to be brought into account, owing to the death or retirement of a partner, or for any other reason, there already exists an asset representing Goodwill in the firm's books, only that proportion of the excess of the new valuation over the old book figure should be credited to the partners in the proportions in which they share profits and losses.

It is not, however, necessary to increase the Goodwill Account by more than the outgoing partner's share, unless it is desired by the other partners to do so.

ILLUSTRATION—

A., B. and C. are in partnership sharing profits, five-twelfths, four-twelfths, and three-twelfths respectively. At the time C. was admitted a Goodwill Account was raised in the firm's books amounting to £1,200. B. dies, the Goodwill Account still standing at the same figure. Under the Partnership Deed on the death of any partner his share of the Goodwill is to be valued at one-half of the share of profits credited to his account during the last three completed years. The firm's accounts for that period show profits of £3,900, £4,500 and £4,200 respectively. Ascertain what further amount should be credited to B. in respect of his share of Goodwill, and make the necessary Journal entry, the remaining partners not taking into account their shares.

	£
Profit 1st year	3,900
" 2nd "	4,500
" 3rd "	4,200
Firm's profits for three years	£12,600

Total value of Goodwill .. .. $\frac{12,600}{2}$ = £6,300

B.'s share of Goodwill .. .. $\frac{6,300 \times 4}{12}$ = £2,100

Amount required to raise Goodwill Account to £6,300 = 6,300 — 1,200 = £5,100.

B.'s share thereof .. .. $\frac{5,100 \times 4}{12}$ = £1,700.

JOURNAL.

	£ s. d.	£ s. d.
Goodwill Account .. .. Dr.	1,700 0 0	
To B. Capital Account		1,700 0 0
Being amount required which taken with $\frac{4}{12} \times 1,200$, the amount already standing to Goodwill Account will raise B.'s share to £2,100.		

Note.—The Goodwill Account will then stand at £2,900.

§ 6.—Outgoing Partners.

(a) Repayment of Outgoing Partner's Capital, &c., by Instalments.

Where a partner retires or dies, his Capital and his share of the Goodwill, &c., is ascertained either in accordance with the provisions of the original deed, or by accounts taken at the date of the dissolution, and the amount so ascertained is paid out to him or his representatives forthwith, or credited to a loan account, and repaid by instalments, with interest running on the outstanding balance. It is important where the amount is not paid out at once that the same should be credited

to a loan account, and not retained as capital, especially in the case of a retiring partner, in order that there may be no possibility of his being regarded as a partner from that point of view.

ILLUSTRATION—

M., a partner in a firm, dies on 31st March, 1915, and his share of Capital and Goodwill is ascertained to be £7,600. It is arranged that this shall be paid out by annual instalments of £2,000, to include principal and interest on the outstanding balance at 5 per cent. per annum. The first payment is made on 30th April, 1915, and succeeding payments are made on the anniversary of the date of death. Show the account in the firm's books relating thereto until completion.

Dr. THE EXECUTORS OF M. (DECEASED) LOAN ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1915. April 30	To Cash	2,000 0 0	1915. Mar. 31	By Capital Account	7,600 0 0
	,, Balance..	5,631 13 4	April 30	,, Interest, 1 month ..	31 13 4
		£7,631 13 4			£7,631 13 4
		£ s. d.			£ s. d.
1916. Mar. 31	To Cash	2,000 0 0	1915. May 1	By Balance	5,631 13 4
	,, Balance	3,889 15 8	1916. Mar. 31	,, Interest, 11 months ..	258 2 4
		£5,889 15 8			£5,889 15 8
		£ s. d.			£ s. d.
1917. Mar. 31	To Cash	2,000 0 0	1916. April 1	By Balance	3,889 15 8
	,, Balance..	2,084 5 5	1917. Mar. 31	,, Interest, 1 year	194 9 9
		£4,084 5 5			£4,084 5 5
		£ s. d.			£ s. d.
1918. Mar. 31	To Cash	2,000 0 0	1917. April 1	By Balance	2,084 5 5
	,, Balance..	188 9 8	1918. Mar. 31	,, Interest	104 4 3
		£2,188 9 8			£2,188 9 8
		£ s. d.			£ s. d.
1919. Mar. 31	To Cash	197 18 2	1918. April 1	By Balance	188 9 8
			1919. Mar. 31	,, Interest	9 8 6
		£197 18 2			£197 18 2

(b) Repayment of Outgoing Partner's Capital, &c., with Interest from date of Realisation of Assets.

It occasionally happens where part of the capital represented is by assets, which will take some time to realise, that interest on the proportion of capital represented by those particular assets is only credited as and from the date of realisation, or that an average date is struck from which interest is to run at a fixed rate.

ILLUSTRATION—

A. and B. are partners, sharing profits and losses three-fifths and two-fifths. A. retires on 30th June, 1919, when the position of the firm is as follows :—

A. AND B.

BALANCE SHEET, 30TH JUNE, 1919.

Liabilities.		£ s. d.	Assets.	£ s. d.
Capital Accounts :—			Office Furniture	250 0 0
A.	£1,260		Sundry Debtors	2,650 0 0
B.	640		Cash	400 0 0
		1,900 0 0		
Sundry Creditors		1,400 0 0		
		£3,300 0 0		£3,300 0 0

It is arranged that A. shall receive £1,000 for his share of Goodwill. The Office Furniture is to be taken at £300, as it was undervalued in the books. The Creditors were paid at an average date of six months and the Debtors realised at an average date of nine months, subject to a loss of £150 by way of Bad Debts. A. was paid £500 on 31st July, 1919, £500 on 31st December, 1919, and £500 on 31st March, 1920. The final settlement takes place on 30th June, 1920, interest running at 5 per cent. per annum.

Show A.'s Account in B.'s books, using interest columns.

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Loss on Book Debts	150 0 0	By Office Furniture	50 0 0
		„ Loss to Capital Accounts—	
		A. three-fifths of £100 .. .	60 0 0
		B. two-fifths of £100	40 0 0
	£150 0 0		£150 0 0

A. AND B

BALANCE SHEET FOR PURPOSES OF SETTLEMENT.

Liabilities.		£ s. d.	Assets.	£ s. d.
Capital Accounts :—			Office Furniture	300 0 0
A.	£1,200		Sundry Debtors realised	2,500 0 0
B.	600		Cash	400 0 0
		1,800 0 0		
Creditors		1,400 0 0		
		£3,200 0 0		£3,200 0 0

NOTE.—It should be remembered that the Assets and Liabilities are shared by the Partners (as between themselves) in proportion to their Capitals, and not in the proportions in which they share profits and losses. This is clearly demonstrated by the fact that the "Net Assets" (*i.e.* assets less liabilities) equal the total Capital of the Partners, which belongs to them according to the balance standing to the credit of their respective Capital Accounts.

Thus in the above illustration the Net Assets belong to the Partners in the proportions of A. two-thirds, B. one-third.

Dr. A. IN ACCOUNT WITH B. *Cr.*

		Mths.	Interest. £ s. d.	Principal. £ s. d.			Mths.	Interest. £ s. d.	Principal. £ s. d.
1919. July 31	To Cash	11	22 18 4	500 0 0	1919. July 1	By Office Furniture two-thirds × 300 ..	12	10 0 0	200 0 0
Dec. 31	,, ,, ...	6	12 10 0	500 0 0		,, Cash two-thirds × 400	12	13 6 8	266 13 4
	,, Creditors two-thirds × 1,400 ..	6	23 6 8	933 6 8		,, Goodwill as agreed	12	50 0 0	1,000 0 0
1920. Mar. 31	,, Cash	3	6 5 0	500 0 0	1920. Mar. 31	,, Debtors two-thirds × 2,500	3	20 16 8	1,666 13 4
June 30	,, Interest: Contra ..		29 3 4		June 30	,, Interest: Contra..			29 3 4
	,, Cash			729 3 4					
			£94 3 4	£3,162 10 0				£94 3 4	£3,162 10 0

A. therefore receives in cash the following sums:—

			£	s.	d.
1919.	July 31	.. ..	500	0	0
	December 31	.. .. ..	500	0	0
1920.	March 31	.. ..	500	0	0
	June 30	.. ..	729	3	4
			£2,229	3	4

Representing return of his adjusted Capital £1,200, plus £1,000 Goodwill, plus £29 3s. 4d. Interest.

(c) Repayment of Outgoing Partner's Capital, &c., by way of Annuity.

Where a partner retires or dies, his Capital and his share of the Goodwill, &c., having been ascertained, are sometimes paid out to himself or his representatives by way of an Annuity, either for a certain term of years (determinable in any case by death) or for the lifetime of himself or his widow.

In such cases as far as the Partnership books are concerned the most convenient method of dealing with the matter is to transfer the amount due to an Annuity Suspense Account, which will be credited with interest at a fixed rate per annum on the diminishing balance, and debited with the annual payment. If, subsequently, the credit balance is exhausted and a loss is sustained, such loss will be written off to Profit and Loss Account, and any future instalments of the annuity debited also to Profit and Loss Account. In the event of a profit being made, the balance to the credit of the Suspense Account should be transferred to the continuing partners' Capital Accounts, in the proportion in which they share profits, although it would be perfectly justifiable to transfer it to Profit and Loss.

The balance of the Annuity Suspense Account at the commencement of the transaction and at the date of each Balance Sheet should represent the present worth of the annuity, subject to variation in the expectation of life. An actuarial valuation for the adjustment of the Suspense Account might be made periodically, say every five years, but as with a single annuity there is no scope for the law of average, it is not usual to do this, the simpler system outlined above being adopted.

Another method is to transfer the amount standing to the credit of the outgoing partner to the continuing partners' Capital Accounts in the proportions in which they share profits, and to debit Profit and Loss Account with the payment of the annuity. This is not advisable, however, if there are several partners, owing to the complications that might arise, particularly in the event of a further rearrangement in the partnership.

§ 7.—Sleeping, Quasi and Limited Partners.

The term *Sleeping Partner* is applied to a partner when he retires from active participation in the business, but retains his capital therein, and probably a reduced share of the profits. In such a case no change need be made in the books.

It is very common for a partner to retire and to determine his liability, and at the same time to take advantage of sub-section (3D) of § 2 of the Partnership Act, 1890, leaving his capital in the business in the shape of a loan, receiving interest thereon varying with the profits. In such a case the balance to the credit of his Capital Account should be transferred to a loan account, and the interest, based on a proportion of the profits, should be regarded as an expense of the business. Such an individual is sometimes termed a *Quasi Partner*, but is in effect simply a deferred creditor, his loan not being repayable until after all the outside creditors of the firm are paid in full.

A *Limited Partnership*, as defined by the Limited Partnerships Act, 1907, must consist of one or more persons called General Partners, who shall

be liable for all debts and obligations of the firm ; and one or more persons to be called Limited Partners, who shall at the time of entering into such partnership contribute thereto a sum or sums as capital or property valued at a stated amount, and who shall not be liable for the debts or obligations of the firm beyond the amount so contributed. A Body Corporate may be a Limited Partner.

The Act contains further particulars as to the registration of Limited Partnerships, and modifications of general partnership law as applied to them.

As regards the books of the Limited Partnership, the amount of capital contributed by the Limited Partner should be placed to the credit of his Capital Account, a note being made in the ledger to the effect that he is a Limited Partner. Any share of profits or interest on capital to which he may be entitled should be placed to the credit of his Current Account, and not to his Capital Account.

It is important to observe that the Act provides that a Limited Partner shall not, during the continuance of the partnership, either directly or indirectly, draw out or receive back any part of his contribution, and if he does so draw out or receive back any such part he shall be liable for the debts and obligations of the firm to the extent of the amount withdrawn.

§ 8.—Dissolution of Partnerships.

(a) Application of § 44 of the Partnership Act, 1890.

In the absence of express agreement of the partners to the contrary, § 44 of the Partnership Act, 1890, lays down the rules as regards the settling of accounts between the partners after a dissolution. These are as follows :—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The assets of the firm, including the sums (if any) contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order :—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein ;

(2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital ;

(3) In paying to each partner rateably what is due from the firm to him in respect of capital ;

(4) The ultimate residue (if any) shall be divided among the partners in the proportion in which profits are divisible.

Diversity of opinion has arisen as to the precise meaning to be attached to this section, but the general view amongst professional Accountants as to its application is as follows :—Immediately upon dissolution a Balance Sheet is drawn out, showing the state of affairs as at that date. When the assets have been realised and the final settlement is to be made, a statement is drawn up, showing the exact profit or loss on the realisation of the assets in relation to their book values, as shown in the Balance Sheet drawn up at the time of dissolution. Such profit or loss is divided between the partners in the proportions in which they share profits or losses, being credited or debited to their Capital Accounts, as the case may be. The liabilities and the expenses of dissolution will be discharged by payment of cash. Should any partner's Capital Account be then in debit, such partner is required to introduce cash to that extent. It will then be found that the remaining balance of cash is sufficient to pay out the credit balances on the other partner's Capital Accounts, thus closing the books.

If, however, one or more of the partners are insolvent, and unable to pay in the amount due, the loss incurred should be borne by the other partners in proportion to their capitals, in accordance with the ruling in *Garner* v. *Murray*, which is considered in sub-section (*b*) (4).

(b) Formula for closing Partnership Books on Dissolution.

Apart from special circumstances, the following outline of the various steps necessary to close the books of a Partnership may be found useful :—

(1) Open a Realisation of Assets Account, debiting such account with the book value of the assets, and crediting the various Asset Accounts. The Realisation Account will also be debited with any expenses on realisation, and cash credited.

(2) Debit cash and credit Realisation Account with the amount realised on the sale of the assets.

NOTE.—Should any of the assets be taken over at a valuation by one of the partners, debit such partner's Capital Account, and credit Realisation Account with the agreed price.

(3) The balance of the Realisation Account will then show the profit or loss on realisation, which will be divided between the partners as they share profits and losses. In the case of a loss, credit Realisation Account and debit the various partners' Capital Accounts, and in the case of a profit *vice versâ.*

(4) Pay off the liabilities by crediting cash and debiting liability accounts.

(5) Pay off partners' advances (if any), first setting off any debit balance on the Capital Account of a partner against his Advance Account.

(6) The balance of the Cash Book will be found to exactly equal the balances on the various Capital Accounts, provided they are in credit, therefore credit cash and debit the partners' Capital Accounts with the amounts as shown by the balance of those accounts to be due to them.

NOTE.—Should one or more partners' Capital Accounts be in debit, the cash will be insufficient to pay back to the other partners the amount due to them by such an amount. If the partner or partners repay to the firm their indebtedness, the other partners' Capital Accounts can then be closed. If, however, they are unable to do so, according to the decision in *Garner* v. *Murray* such loss will be divided between the other partners, not as they share profits and losses, but in proportion to their Capitals. An adjusting entry will then be put through to close the Capital Accounts.

The following are cases showing the Winding-up of Partnerships under varying circumstances :—

(1) *Where on Dissolution of Partnership there is a Profit on the Realisation of the Assets.*

ILLUSTRATION—

X. and Y. are in partnership sharing profits, five-eighths and three-eighths. They agree to dissolve partnership, and their Balance Sheet at the date of dissolution, 31st December, 1919, is as follows :—

X. AND Y.

BALANCE SHEET, 31ST DECEMBER, 1919.

Liabilities.		£ s. d.	Assets.	£ s. d.
Capital Accounts :—			Premises..	1,200 0 0
X.	£1,500		Stock	1,400 0 0
Y.	1,300		Debtors	1,100 0 0
		2,800 0 0	Cash	600 0 0
Creditors		1,500 0 0		
		£4,300 0 0		£4,300 0 0

The winding-up is completed by 30th June, 1920, the assets other than cash realising £4,500. Close the books of the firm.

Dr. REALISATION ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
1919. Dec. 31	To Sundry Assets		3,700 0 0	1920. June 30	By Cash	4,500 0 0
1920. June 30	" Profit transferred to Capital Accounts :—					
	X. five-eighths	£500				
	Y. three-eighths	300				
			800 0 0			
			£4,500 0 0			£4,500 0 0

Dr. SUNDRY CREDITORS. *Cr.*

		£ s. d.			£ s. d.
1920. June 30	To Cash	1,500 0 0	1919. Dec. 31	By Balance	1,500 0 0

Dr. X. CAPITAL ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920. June 30	To Cash	2,000 0 0	1919. Dec. 31	By Balance	1,500 0 0
			1920. June 30	Realisation Account	500 0 0
		£2,000 0 0			£2,000 0 0

Dr. Y. CAPITAL ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920. June 30	To Cash	1,600 0 0	1919. Dec. 31	By Balance	1,300 0 0
			1920. June 30	„ Realisation Account ..	300 0 0
		£1,600 0 0			£1,600 0 0

Dr. CASH. *Cr.*

		£ s. d.			£ s. d.
1919. Dec. 31	To Balance	600 0 0	1920. June 30	By Creditors	1,500 0 0
1920. June 30	„ Realisation Account ..	4,500 0 0	„	„ Capital Accounts :— X. .. .. £2,000; Y. 1,600	3,600 0 0
		£5,100 0 0			£5,100 0 0

(2) *Where on Dissolution of Partnership the Liabilities are paid in full, but there is a loss on the realisation of the Assets.*

ILLUSTRATION—

D., E. and F. sharing profits and losses, half, one-third and one-sixth respectively, dissolve partnership. At the date of dissolution their creditors amount to £2,300, and in the course of winding-up a contingent liability of £200 not brought into the accounts matured and had to be met. Their Capitals stood at £6,000, £4,000 and £1,500 respectively. D. had lent to the firm in addition £2,000. The assets realised £10,000. Close the books of the firm.

Dr. REALISATION ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Book value of Assets	15,800 0 0	By Cash	10,000 0 0
„ Contingent liability matured ..	200 0 0	„ Loss transferred to Capital Accounts :— D. one-half .. .. £3,000; E. one-third .. .. 2,000; F. one-sixth 1,000	6,000 0 0
	£16,000 0 0		£16,000 0 0

Dr. SUNDRY CREDITORS. *Cr.*

	£ s. d.		£ s. d.
To Cash	2,500 0 0	By Balance	2,300 0 0
		„ Realisation Account :— Contingent liability matured ..	200 0 0
	£2,500 0 0		£2,500 0 0

Dr. D. LOAN ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Cash	2,000 0 0	By Balance	2,000 0 0

D. CAPITAL ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
To Realisation Account: Loss	3,000 0 0	By Balance	6,000 0 0
" Cash	3,000 0 0		
	£6,000 0 0		£6,000 0 0

E. CAPITAL ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
To Realisation Account: Loss	2,000 0 0	By Balance	4,000 0 0
" Cash	2,000 0 0		
	£4,000 0 0		£4,000 0 0

F. CAPITAL ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
To Realisation Account: Loss	1,000 0 0	By Balance	1,500 0 0
" Cash	500 0 0		
	£1,500 0 0		£1,500 0 0

CASH.

Dr.	£ s. d.	Cr.	£ s. d.
To Realisation Account	10,000 0 0	By Creditors	2,500 0 0
		" D. Loan Account	2,000 0 0
		" D. Capital Account	3,000 0 0
		" E. "	2,000 0 0
		" F. "	500 0 0
	£10,000 0 0		£10,000 0 0

Note to Illustration.

When the book value of the assets is not given, but only the amount they realise, the figure to be placed to the debit of the Realisation Account representing the book value of the assets must be equivalent to the total of the Creditors and Capitals added together, since the total of one side of a Balance Sheet must be equal to the total of the other.

(3) *Where on Dissolution of Partnership there is a loss on the realisation of the Assets, placing one partner's Capital Account in debit temporarily, obliging him to bring in cash to that extent.*

ILLUSTRATION—

J. and P. are in partnership, with capitals of £700 and £100. The Creditors are £2,300. The assets realise £1,900. Partners share profits and losses equally. Close the books of the firm, P. having brought in the amount payable by him.

REALISATION ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
To Assets	3,100 0 0	By Cash	1,900 0 0
		" Loss to Capital Accounts:—	
		J. one-half	600 0 0
		P. one-half	600 0 0
	£3,100 0 0		£3,100 0 0

Dr. J. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account: Loss ..	600 0 0	By Balance	700 0 0
" Cash	100 0 0		
	£700 0 0		£700 0 0

Dr. P. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account: Loss ..	600 0 0	By Balance	100 0 0
		" Cash	500 0 0
	£600 0 0		£600 0 0

Dr. CREDITORS. *Cr.*

	£ s. d.		£ s. d.
To Cash	2,300 0 0	By Balance	2,300 0 0

Dr. CASH. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account	1,900 0 0	By Creditors	2,300 0 0
" P. Capital Account	500 0 0	" J. Capital Account	100 0 0
	£2,400 0 0		£2,400 0 0

(4) *Where on Dissolution of Partnership there is a loss on the realisation of the Assets, placing one partner's Capital Account permanently in debit, he being insolvent, and the rule in* Garner *v.* Murray *being applied.*

Prior to the decision in *Garner* v. *Murray* it was generally supposed that any loss, occasioned by one of the partners of a firm being unable to make good the debit balance to his account, arising from a loss on the realisation of assets consequent on a dissolution, should be borne by the remaining partners in the same relative proportions as they previously shared profits and losses.

In giving his decision, Joyce, J., held that any loss occasioned through the default of one of the partners must be distinguished from an ordinary trade loss, being regarded as a debt due to the remaining partners individually, and not as a debt due to the firm; and that whereas a firm loss should be divided between the partners as they share profits and losses, a loss of this nature should be borne by the solvent partners in proportion to their respective capitals in the business.

Considerable discussion has taken place as to the correct interpretation of this judgment, but from the general concensus of opinion it would appear that the following method is least open to criticism :—

The solvent partners should make good their proportion of the loss by actually introducing cash. Assuming all the other assets to have been converted into cash, the total cash balance should be divided between the solvent partners respectively in proportion to their capitals.

ILLUSTRATION—

A., B. & C. share profits and losses equally. They decide to dissolve partnership, and the following Balance Sheet shows the position of affairs after the assets have been realised :—

Dr. BALANCE SHEET. *Cr.*

	£ s. d.		£ s. d.
To Capitals—		By Cash	500 0 0
A.	600 0 0	" Capital C. overdrawn	200 0 0
B.	400 0 0	" Deficiency of Firm	300 0 0
	£1,000 0 0		£1,000 0 0

C. is insolvent, and is unable to contribute anything towards either his overdraft on Capital or his share in the deficiency of the Firm.

There existed no agreement between the Partners as to their respective rights under such circumstances, and consequently the loss sustained through C.'s fault has to be apportioned between the Solvent Partners A. & B. in accordance with the ruling in *Garner* v. *Murray.*

A. & B., therefore, introduce £100 each, which is debited to Cash and credited to the Deficiency Account, and a reconstructed Balance Sheet is prepared as follows :—

Dr. BALANCE SHEET. *Cr.*

	£ s. d.		£ s. d.
To Capitals—		By Cash	700 0 0
A.	600 0 0	" C.'s Capital overdrawn	200 0 0
B.	400 0 0	" C.'s proportion of the Firm's deficiency	100 0 0
	£1,000 0 0		£1,000 0 0

The remaining asset, viz., Cash of £700, is divided between the Solvent Partners A. & B. respectively, in proportion to their Capitals, viz. :—

		£ s. d.
Six-tenths to A.	=	420 0 0
Four-tenths to B.	=	280 0 0
		£700 0 0

This settlement is effected by crediting Cash and debiting the Capital Accounts of A. & B. respectively. The only balances then remaining in the books are the debit balances on C.'s Capital and Deficiency Accounts, amounting together to £300, and the credit balances on the Capital Accounts of A. & B., amounting to £180 and £120 respectively. As C. is insolvent, his debit balance will be written off against A. & B., the former bearing £180 and the latter £120.

It will thus be seen that the loss occasioned through the Insolvent Partner's default is borne by the solvent Partners in proportion to their Capitals, and not as they share profits and losses.

An alternative solution where the solvent partners do not wish to bring in cash to the extent of their respective shares of the loss on realisation is to treat them as Debtors for those amounts, and to set the same off against the balance found to be payable to them on account of their Capital.

(c) Dissolution of Partnership on agreed terms.

Upon the dissolution of a Partnership at the expiration of the term thereof, the partners may agree amongst themselves as to sharing the various assets; those in possession being divided on certain terms, and the debts due to the business being taken over by the parties by arrangement.

Where the partners in such cases are professional men, it is a common practice for each to take over the debts due from those persons whom he regards as his own clients.

ILLUSTRATION—

Three Doctors, A., B. and C., are in partnership in Kensington. The partnership comes to an end at 31st December, 1919, at which date the agreed figures of the Trial Balance are as follows:—

	Dr.	Cr.
	£	£
A. Capital Account at 1st January, 1919		2,500
B. ,, ,, ...		1,500
C. ,, ,, ...		1,200
Drawing Account—A. at 31st December, 1919 ..	1,225	
,, B. ,, ..	634	
,, C. ,, ..	723	
Book Debts (in North Kensington)	2,682	
,, (in South ,,)	2,087	
Liabilities		316
Furniture and Fixtures	125	
Cash at Bankers	1,500	
Profit and Loss Balance (before charging Interest on Capital)		3,460
	£8,976	£8,976

Each partner is to be credited with a year's interest at 5 per cent. on his full Capital Account, and the remaining profit is to be divided, one-half to A., one-quarter to B., and one-quarter to C.

A. retires from practice; B. takes over the Furniture and the Debtors in North Kensington, and assumes the liabilities; and C. takes over the South Kensington Debtors. Each partner takes a third of the cash balance, and pays his own cost of coming to a settlement.

Make out statements showing what are the respective sums to be received or paid by each partner on the final settlement.

Dr. APPROPRIATION OF PROFIT ACCOUNT. *Cr.*

	£ s. d.	£ s. d.		£ s. d.
To Interest on Capital—			By Balance	3,460 0 0
A. 5 % on £2,500 ..	125 0 0			
B. 5 % on £1,500 ..	75 0 0			
C. 5 % on £1,200 ..	60 0 0			
		260 0 0		
„ Balance, being Profit—				
A. one-half of £3,200 ..	1,600 0 0			
B. one-quarter of £3,200	800 0 0			
C. one-quarter of £3,200	800 0 0			
		3,200 0 0		
		£3,460 0 0		£3,460 0 0

Dr. A. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	1,225 0 0	By Balance	2,500 0 0
„ Cash, one-third of £1,500	500 0 0	„ Interest on Capital..	125 0 0
„ Balance due to A.	2,500 0 0	„ Profit	1,600 0 0
	£4,225 0 0		£4,225 0 0
		By Balance	£2,500 0 0

Dr. B. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	634 0 0	By Balance	1,500 0 0
„ Cash, one-third of £1,500	500 0 0	„ Interest on Capital..	75 0 0
„ Debtors (North Kensington).. ..	2,682 0 0	„ Profit	800 0 0
„ Furniture and Fixtures	125 0 0	„ Liabilities	316 0 0
		„ Balance due by B. to A.	1,250 0 0
	£3,941 0 0		£3,941 0 0
To Balance due by B. to A.	£1,250 0 0		

Dr. C. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	723 0 0	By Balance	1,200 0 0
„ Cash, one-third of £1,500	500 0 0	„ Interest on Capital..	60 0 0
„ Debtors (South Kensington).. ..	2,087 0 0	„ Profit	800 0 0
		„ Balance due by C. to A.	1,250 0 0
	£3,310 0 0		£3,310 0 0
To Balance due by C. to A.	£1,250 0 0		

(d) Dissolution of Partnership by Death or Bankruptcy.

Under § 33 of the Partnership Act, 1890, any partnership, except where otherwise agreed, is dissolved as regards all the partners by the death or bankruptcy of any partner.

The Act provides, by § 42, that where any member has died, or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with its Capital or Assets, without any final settlement of accounts as between the firm and the outgoing partner or his estate, the outgoing partner or his estate is, in the absence

of agreement, entitled to such share of the profits made since the dissolution as the Court may find to be attributable to the use of his share of the Partnership Assets, or to interest at 5 per cent. per annum on the amount of his share of the Partnership Assets.

ILLUSTRATION—

F., G. and H. are partners in a manufacturing business. F. is entitled to one-fourth of the partnership property and profits, G. to one-eighth, and H. to five-eighths. The yearly accounts are made up to 30th September.

F. becomes bankrupt on the preceding 31st March. G. and H. continue the business, without paying out F.'s share of the partnership assets, or settling accounts with his Estate until the close of the year—30th September.

The previous year's Balance Sheet showed F.'s capital to be £4,000.

The partners' drawings during the year have been as follows:—F. £250, G. £100, and H. £700.

There is no agreement for interest on capital, but the partners F. and G. are each to be credited with a salary at the rate of £100 per annum. Subject to this charge, the profits for the year ending 30th September are £1,750.

Show the balance of profits and salary due to each partner, and the total amount due by G. and H. to F.'s Estate at 30th September.

F., G. & H., PROFIT AND LOSS ACCOUNT

Dr. FOR THE SIX MONTHS ENDING 31ST MARCH. *Cr.*

	£ s. d.	£ s. d.		£ s. d.
To Partners' Salaries—			By Apportionment of Profit for six months ending 31st March ..	875 0 0
F.	50 0 0			
G.	50 0 0			
		100 0 0		
Balance		775 0 0		
		£875 0 0		£875 0 0
		£ s. d.		£ s. d.
To F. one-fourth		193 15 0	By Balance	775 0 0
,, G. one-eighth		96 17 6		
,, H. five-eighths		484 7 6		
		£775 0 0		£775 0 0

G. & H., PROFIT AND LOSS ACCOUNT

Dr. FOR THE SIX MONTHS ENDING 30TH SEPTEMBER. *Cr.*

	£ s. d.		£ s. d.
To Partner's Salary—		By Apportionment of Profit for six months ending 30th September ..	875 0 0
G.	50 0 0		
,, Interest: F.— 5 % per annum on £3,993 15s., Balance of Capital and Current Accounts	99 16 10		
,, Balance	725 3 2		
	£875 0 0		£875 0 0
	£ s. d.		£ s. d.
To G. one-sixth	120 17 2	By Balance—	725 3 2
,, H. five-sixths	604 6 0		
	£725 3 2		£725 3 2

Dr. F. CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	250 0 0	By Salary	50 0 0
		" Profit	193 15 0
		" Balance to Capital Account ..	6 5 0
	£250 0 0		£250 0 0

Dr. F. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Current Account	6 5 0	By Balance	4,000 0 0
" Balance	4,093 11 10	" Interest	99 16 10
	£4,099 16 10		£4,099 16 10
		By Balance, being total amount due to F.'s Estate	£4,093 11 10

Dr. G. CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	100 0 0	By Salary—F., G. and H.	50 0 0
" Balance	217 14 8	" Profit— "	96 17 6
		" Salary—G. and H.	50 0 0
		" Profit— "	120 17 2
	£317 14 8		£317 14 8
		By Balance	£217 14 8

Dr. H. CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	700 0 0	By Profit—F., G. and H.	484 7 6
" Balance	388 13 6	" " G. and H.	604 6 0
	£1,088 13 6		£1,088 13 6
		By Balance	£388 13 6

Note to Illustration.

As far as G. and H. are concerned it will be preferable for them to pay F. interest, and the Illustration has been worked out accordingly; but the Trustee would have the right to go to the Court and claim a share of the profits, in lieu of interest.

(e) The Conversion of a Private Firm into a Limited Company.

It is frequently the modern practice to convert a private business into a limited Company, either of a private nature, in which case the shares will be held by the families concerned, or of a public nature, when shares or debentures may be offered to the public.

This is done for many reasons, the principal among which are the limitation of personal liability of the partners, and the facilitation of treatment of large sums of capital in the event of the death of one or more of the partners.

In such a case the books of the firm should be closed, and new books opened for the Company. The following will be the procedure for closing the firm's books :—

(1) Debit a Realisation Account, and credit the Accounts of the various assets taken over by the new concern.

(2) Debit the Accounts of the liabilities taken over by the new concern, and credit Realisation Account.

(3) Debit a Purchasing Company's Account, and credit Realisation Account with the purchase price of the net assets taken over.

Note.—The term "net assets" means the assets less the liabilities.

(4) The balance on the Realisation Account, after debiting expenses (if any), will represent the profit or loss on realisation of the net assets taken over, and will be divided between the partners in the proportions in which they share profits and losses. If a profit, debit the Realisation Account and credit the various Capital Accounts; if a loss, *vice versâ*.

(5) Debit the various asset accounts, such as Cash, Shares, Debentures, &c., representing the purchase consideration, and credit the Purchasing Company.

(6) Pay off the liabilities not taken over by the new Company (if any), by crediting cash and debiting the Liability Accounts.

(7) Distribute the Shares, Debentures, &c., by crediting those accounts and debiting the partners' Capital Accounts in the agreed proportions.

(8) The only balances remaining will be the Capital Accounts and the cash, which should equal one another, and the partners should therefore be paid off according to the balances standing to their credit.

ILLUSTRATION—

The firm of J., S. and R. decide to turn their business into a Limited Company. Their Balance Sheet is as follows :—

J., S. AND R.

BALANCE SHEET, 30TH JUNE, 1920.

LIABILITIES.		£ s. d.	ASSETS.		£ s. d.
Capital Accounts :—			Freehold Property		30,000 0 0
J.	£25,000		Plant		10,900 0 0
S.	15,000		Fixtures, Fittings and Furniture ..		1,500 0 0
R.	10,000		Stock-in-Trade		19,500 0 0
		50,000 0 0	Sundry Debtors.. ..	£68,830	
			Less Reserve ..	2,000	
Trade Creditors		63,300 0 0			66,830 0 0
Loan on Mortgage		20,000 0 0	Cash at Bank	4,500	
			„ in Hand	70	
					4,570 0 0
		£133,300 0 0			£133,300 0 0

They share profits—J. four-ninths, S. three-ninths, R. two-ninths. The purchase consideration was £85,000 (the Company taking over all the assets and liabilities except the loan on mortgage), and was payable as to £25,000 in cash, £20,000 in 5 per Cent. Mortgage Debentures, and £40,000 in Ordinary Shares. Expenses amounting to £600 were payable by the firm.

Assuming the transactions to have been carried through and the loan on mortgage paid off, close the books of the firm, the debentures and shares, &c., being divided in proportion to the capitals as shown in the above Balance Sheet.

Dr. REALISATION ACCOUNT. *Cr.*

		£ s. d.		£ s. d.
To Sundry Assets		133,300 0 0	By Trade Creditors	63,300 0 0
„ Expenses		600 0 0	„ Purchasing Company	85,000 0 0
„ Capital Accounts, being profit :—				
J. four-ninths ..	.. £6,400			
S. three-ninths ..	.. 4,800			
R. two-ninths ..	.. 3,200			
		14,400 0 0		
		£148,300 0 0		£148,300 0 0

Dr. LOAN ON MORTGAGE. *Cr.*

	£ s. d.		£ s. d.
To Cash	20,000 0 0	By Balance	20,000 0 0

Dr. PURCHASING COMPANY. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account	85,000 0 0	By Cash	25,000 0 0
		„ Debentures	20,000 0 0
		„ Ordinary Shares	40,000 0 0
	£85,000 0 0		£85,000 0 0

Dr. DEBENTURES. *Cr.*

	£ s. d.		£ s. d.
To Purchasing Company . ..	20,000 0 0	By J. Capital Account $\frac{25}{50}$	10,000 0 0
		„ S. „ „ $\frac{15}{50}$	6,000 0 0
		„ R. „ „ $\frac{10}{50}$	4,000 0 0
	£20,000 0 0		£20,000 0 0

Dr. ORDINARY SHARES. Cr.

	£ s. d.		£ s. d.
To Purchasing Company	40,000 0 0	By J. Capital Account $\frac{25}{50}$	20,000 0 0
		„ S. „ „ $\frac{15}{50}$	12,000 0 0
		„ R. „ „ $\frac{10}{50}$	8,000 0 0
	£40,000 0 0		£40,000 0 0

Dr. J. CAPITAL ACCOUNT. Cr.

	£ s. d.		£ s. d.
To Debentures	10,000 0 0	By Balance	25,000 0 0
„ Ordinary Shares	20,000 0 0	„ Realisation Account	6,400 0 0
„ Cash	1,400 0 0		
	£31,400 0 0		£31,400 0 0

Dr. S. CAPITAL ACCOUNT. Cr.

	£ s. d.		£ s. d.
To Debentures	6,000 0 0	By Balance	15,000 0 0
„ Ordinary Shares	12,000 0 0	„ Realisation Account	4,800 0 0
„ Cash	1,800 0 0		
	£19,800 0 0		£19,800 0 0

Dr. R. CAPITAL ACCOUNT. Cr.

	£ s. d.		£ s. d.
To Debentures	4,000 0 0	By Balance	10,000 0 0
„ Ordinary Shares	8,000 0 0	„ Realisation Account	3,200 0 0
„ Cash	1,200 0 0		
	£13,200 0 0		£13,200 0 0

Dr. CASH ACCOUNT. Cr.

	£ s. d.			£ s. d.
To Purchasing Company..	25,000 0 0	By Loan on Mortgage..		20,000 0 0
		„ Expenses		600 0 0
		„ Capital Accounts —		
		J...	£1,400	
		S...	1,800	
		R.	1,200	
				4,400 0 0
	£25,000 0 0			£25,000 0 0

Note to Illustration.

The ultimate balance of Cash, viz., £4,400, is divided between the partners according to the balances of their respective Capital Accounts, after dividing up the Debentures and Shares between them, and has no connection whatever with the proportions of Capital prior to such distribution, or the proportions in which they share profits and losses.

(f) Amalgamation of Sole Traders.

The unnecessary expenditure in the nature of fixed charges is one important factor which has often induced traders in the same line of business to enter into partnership together.

Where such an arrangement has been decided upon, it is essential that a very definite agreement be arrived at with regard to the valuations at which the assets belonging to the various traders are to be brought into the partnership, and likewise the extent to which the liabilities are to be undertaken by the partnership, and the amounts of the respective partners' Capitals.

It is usual in these cases to make all the necessary adjustments of book values in the books of the individual traders, so that it is quite clear from the separate books that the net assets introduced by each partner are in accordance with the agreement.

Where the net assets in any case are less than that partner's agreed capital in the partnership, it will be necessary for him to introduce Cash to the required amount. Should, however, there be a surplus of net assets over his agreed capital, such surplus should be carried to the credit of his Current Account ; or where possible, an equivalent amount in cash can be withdrawn prior to the amalgamation.

ILLUSTRATION—

C. Water and B. Fall have each been trading as Cardboard Box Manufacturers. They agree to enter into partnership and carry on their former businesses as one under the style of Water, Fall & Co.

It is agreed :—

(1) that each partner shall have a fixed capital of £10,000 ;

(2) that Water's Stock is to be brought in at £3,250, and Fall's Stock at £2,750 as per valuations ;

(3) that the reserves for Bad Debts are to be increased to 6 per cent. on the Debtors ;

(4) that Fall is to dispose of his Office Furniture and Fixtures to the best advantage, and

(5) that any deficiency on the net assets brought in, is to be paid into the firm's Bankers.

The Balance Sheets at December 31st, were as follows :—

C. WATER.

Dr. BALANCE SHEET, 31st December. *Cr.*

	£ s. d.			£ s. d.
To Sundry Creditors	1,810 0 0	By Office Furniture and Fixtures ...		350 0 0
,, Capital Account	10,625 0 0	,, Plant and Machinery		5,000 0 0
		,, Stock		3,400 0 0
		,, Sundry Debtors	£2,750	
		Less Reserve for Bad Debts	120	
				2,630 0 0
		,, Cash at Bank	980	
		,, ,, in Hand	75	
				1,055 0 0
	£12,435 0 0			£12,435 0 0

B. FALL.

Dr. BALANCE SHEET, 31st December. *Cr.*

	£ s. d.			£ s. d.
To Sundry Creditors	2,102 0 0	By Office Furniture and Fixtures ...		200 0 0
,, Capital Account	10,133 0 0	,, Plant and Machinery		5,500 0 0
		,, Stock		2,800 0 0
		,, Sundry Debtors	£3,025	
		Less Reserve for Bad Debts	100	
				2,925 0 0
		,, Cash at Bank	765	
		,, ,, in Hand	45	
				810 0 0
	£12,235 0 0			£12,235 0 0

Give the Journal entries necessary to adjust each trader's books prior to amalgamation, and the commencing Balance Sheet of Water, Fall & Co.

WATER, FALL & COMPANY.

Dr. BALANCE SHEET, 1st January. *Cr.*

		£ s. d.			£ s. d.
To Sundry Creditors		3,912 0 0	By Office Furniture and Fixtures ...		350 0 0
,, Capital Accounts :—			,, Plant and Machinery		10,500 0 0
C. Water ...	... £10,000 0 0		,, Stock		6,000 0 0
B. Fall ...	... 10,000 0 0		,, Sundry Debtors ...	5,775 0 0	
		20,000 0 0	*Less* Reserve for Bad Debts, 6%	346 10 0	
					5,428 10 0
			,, Cash at Bankers ...	1,513 10 0	
			,, ,, in Hand ...	120 0 0	
					1,633 10 0
		£23,912 0 0			£23,912 0 0

WATER'S BOOKS.

	£ s. d.	£ s. d.
Capital Account ... ... *Dr.*	625 0 0	
To Stock		150 0 0
Reserve for Bad Debts		45 0 0
Cash		430 0 0
being adjustment in accordance with agreement of partnership with B. Fall.		

FALL'S BOOKS.

	£ s. d.	£ s. d.
Capital Account ... ... *Dr.*	331 10 0	
To Stock		50 0 0
Reserve for Bad Debts		81 10 0
Office Furniture and Fixtures		200 0 0
being adjustments in accordance with agreement of partnership with C. Water		

WATER, FALL & CO.

	£ s. d.	£ s. d.
Cash ... ... *Dr.*	198 10 0	
To B. Fall's Capital Account		198 10 0
being introduction of cash necessary to bring B. Fall's Capital to £10,000.		

§ 9.—Joint Venture Accounts.

Joint Venture is defined in "Bell's Principles," Art. 392, as follows: "Joint Adventure or Joint Trade is a partnership confined to a particular adventure, speculation, course of trade or voyage, and in which the partners, either latent or known, use no firm or social name, and incur no responsibility beyond the limits of the adventure." The incidents of Joint Adventure cannot be distinguished in any way from those of an Ordinary Partnership, beyond the fact that the agreement is of a specially limited character.

In actual practice cases of Joint Adventure resolve themselves broadly into two classes :—

(a) Where a separate set of books is opened for the transactions of the Joint Venture.

In such a case a joint Banking Account will be utilised, and the transactions will be recorded in a precisely similar manner to those of ordinary partnerships, each partner's Capital Account being credited with the amount which he pays into the Joint Account. Interest on Capital is usually taken into consideration, and the profits or losses are divided, according to the shares agreed upon.

ILLUSTRATION—

A. and B. were partners in a joint venture in Timber, sharing profits, two-thirds and one-third respectively. A Banking Account in their joint names is opened on the 1st January, 1920, A. paying into the same £700, and B. £850.

The transactions were as follows :—

1920.			£	s.	d.
Jan.	8	Purchased from F. Daponta Cargo of Timber valued at	665	0	0
		Accepted draft for same at one month	665	0	0
"	11	Paid Freight and Expenses to Liverpool	142	10	0
Feb.	20	Sold T. Stephens & Sons Logs	180	0	0
"	21	Received Cash *less* 5%	171	0	0
"	26	Bought for Cash from Lehman & Co. Cargo of Timber, net	800	0	0
Mar.	17	Paid Freight and Expenses to Hull	125	0	0
		Sold M. White & Co. Deals, net	300	0	0
		Received their acceptance one month	300	0	0
April	21	Sold for Cash to M. Black & Co. Cargo purchased from Lehman & Co.	1,400	0	0
"	30	Stock balance of Daponta's Cargo valued at	320	0	0

The Venture was closed on April 30th, 1920, by B. taking over the Stock at an agreed valuation of £320, less 10 per cent.

Adjust the accounts as between the partners at 30th April, 1920, allowing interest on the amounts at 5 per cent. per annum, and show—

(1) The Joint Venture Account.

(2) The Partners' Capital Accounts.

(3) The Joint Cash Account.

(4) The Joint Bills Receivable and Payable Accounts.

Dr. JOINT VENTURE ACCOUNT. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Purchases :—			By Sales :—		
F. Daponta ..	665 0 0		T. Stephens & Sons	180 0 0	
Lehman & Co. ..	800 0 0		M. White & Co. ..	300 0 0	
		1,465 0 0	M. Black & Co. ..	1,400 0 0	
" Freight & Expenses :—					1,880 0 0
Liverpool	142 10 0		" B. Capital Account: value of stock taken over, *less* 10 %		288 0 0
Hull	125 0 0				
		267 10 0			
" Discount	.. ..	9 0 0			
" Interest on Capital :—					
A.	11 13 4				
B.	14 3 4				
		25 16 8			
" Balance, being Profit :—					
A. Two-thirds ..	267 2 3				
B. One-third ..	133 11 1				
		400 13 4			
		£2,168 0 0			£2,168 0 0

Dr. A. CAPITAL ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 30	To Cash	978 15 7	Jan. 1	By Cash	700 0 0
			April 30	" Interest on Capital ..	11 13 4
			"	" Profit	267 2 3
		£978 15 7			£978 15 7

Dr. B. CAPITAL ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
April 30	To Stock taken over ..	288 0 0	Jan. 1	By Cash	850 0 0
"	" Cash	709 14 5	April 30	" Interest on Capital ..	14 3 4
			"	" Profit	133 11 1
		£997 14 5			£997 14 5

Dr. CASH BOOK. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Jan. 1	To A. Capital Account ..	700 0 0	Jan. 11	By Freight and Expenses	142 10 0
	" B. " " ..	850 0 0	Feb. 11	" Bills Payable	665 0 0
Feb. 21	" T. Stephens & Sons ..	171 0 0	" 26	" Cash Purchases :—	
April 20	" Bills Receivable ..	300 0 0		Lehman & Co. ..	800 0 0
" 21	" Cash Sales :—		Mar. 17	" Freight and Expenses	125 0 0
	M. Black & Co. ..	1,400 0 0	April 30	" Balance	1,688 10 0
		£3,421 0 0			£3,421 0 0
		£ s. d.			£ s. d.
April 30	To Balance	1,688 10 0	April 30	By A. .. £978 15 7	
				" B. .. 709 14 5	1,688 10 0
		£1,688 10 0			£1,688 10 0

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Mar. 17	To M. White & Co.	300 0 0	April 20	By Cash	300 0 0

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

1920.		£ s. d.	1920.		£ s. d.
Feb. 11	To Cash	665 0 0	Jan. 8	By F. Daponta	665 0 0

(b) Where no separate set of books is opened for the transactions of the Joint Venture.

In such a case each party will record the transactions he enters into on behalf of the Joint Account in his own books, and no Joint Banking Account will be opened. In order to ascertain the profit or loss, each party must render a complete statement of all transactions entered into by him, and these must then be combined into a Joint Venture Account, which account will not appear in the books of either party, but will be raised from materials supplied by both. This account is in the nature of a Trading or Profit and Loss Account. As soon as the result is ascertained, each partner will debit or credit his account with the Joint Venture in his own books with his share of the result, and the balance of this account will then represent the amount due to or by the other party.

ILLUSTRATION—

M. and R. were partners in an Underwriting Venture, sharing profits and losses, three-fifths and two-fifths. They agree to guarantee the subscription of 100,000 shares of £1 each in a Company, and to pay all expenses up to allotment, in consideration of a commission of 5 per cent. in cash and 10 per cent. in fully-paid shares of the Company.

M. provided cash for the following expenses :—Registration and Fees £120, Advertising £2,200, Printing and Prospectuses £270. R. provided the cash for the remainder, viz., Rent of Offices £45 ; Petty Cash £20, Stamps £90, Law Costs £250.

The public having subscribed only £70,000, the Underwriters had to take up £30,000, the cash being provided by them three-fifths and two-fifths respectively.

In due course they sold all their shares except 5,000, including those received for commission, at an average price of 15s. 3d., less brokerage of 3d. per share, the remaining 5,000 being taken over by M. at 12s. 6d. Of the proceeds M. received three-fifths and R. two-fifths. The cash commission received was divided in the same proportions.

Prepare a Joint Venture Account, and the separate accounts of the partners in their own books, showing the final balance payable by the one to the other, the shares taken over by M. being brought into account, and no interest being taken into consideration.

JOINT VENTURE ACCOUNT.

Dr.	£ s. d.	£ s. d.	*Cr.*	£ s. d.	£ s. d.
To Expenses paid by M. :—			By Cash—Underwriting Commission :		
Registration Fees ..	120 0 0		M.	3,000 0 0	
Advertising ..	2,200 0 0		R.	2,000 0 0	5,000 0 0
Printing, &c. ..	270 0 0	2,590 0 0			
„ Expenses paid by R. :—			„ Sale of 35,000 shares at 15s. net :—		
Rent	45 0 0		M.	15,750 0 0	
Petty Cash ..	20 0 0		R.	10,500 0 0	26,250 0 0
Stamps	90 0 0				
Law Costs	250 0 0	405 0 0			
„ Shares taken up :—			„ Shares taken over by M., 5,000 @ 12s 6d.		3,125 0 0
M.	18,000 0 0				
R.	12,000 0 0	30,000 0 0			
„ Balance, being Profit :—					
M. Three-fifths ..	828 0 0				
R. Two-fifths ..	552 0 0	1,380 0 0			
		£34,375 0 0			£34,375 0 0

M.'S BOOKS.
JOINT ACCOUNT WITH R.

Dr.	£ s. d.	*Cr.*	£ s. d.
To Cash—Expenses	2,590 0 0	By Cash—Commission..	3,000 0 0
„ „ Shares	18,000 0 0	„ „ Shares	15,750 0 0
„ Profit and Loss Account, Three-fifths of £1,380	828 0 0	„ Shares taken over	3,125 0 0
„ Balance due to R.	457 0 0		
	£21,875 0 0		£21,875 0 0
		By Balance due to R.	£457 0 0

R.'S BOOKS.
JOINT ACCOUNT WITH M.

Dr.	£ s. d.	*Cr.*	£ s. d.
To Cash—Expenses	405 0 0	By Cash—Commission..	2,000 0 0
„ „ Shares	12,000 0 0	„ „ Shares	10,500 0 0
„ Profit and Loss Account—Two-fifths of £1,380	552 0 0	„ Balance due from M.	457 0 0
	£12,957 0 0		£12,957 0 0
To Balance due from M.	£457 0 0		

§ 10.—**Miscellaneous Problems in Partnership Accounts.**

The following are illustrations of a few of the more important problems involving minor difficulties and arithmetical intricacies, which are continually presenting themselves to the Professional Accountant in dealing with Partnership Accounts.

(a) Proportion of one Partner's share borne personally by another.

It occasionally happens where a member of the staff of a Private Firm is taken into Partnership, that the difference between the amount of his share in the profits as a partner and the amount which, as a clerk,

he would have received by way of salary, plus possibly a commission varying with the profits, is borne personally by certain of the partners, and not shared by all in proportion as they divide profits and losses.

Such cases present no real difficulty, provided the terms of the agreement are thoroughly understood, but arithmetical accuracy is of course of the utmost importance. Further, it is necessary to state very clearly the various steps showing how the ultimate result has been arrived at, to prevent difficulties and misunderstandings subsequently.

ILLUSTRATION—

A. and B. are in partnership, sharing profits and losses in the proportions of four-fifths and one-fifth respectively.

On the 1st July, 1919, they admit to partnership C., their Managing Clerk, giving him one-eighth share of the profits.

Previous to 1st July, 1919, C. had been in receipt of a salary of £300 per annum, and a commission of 5 per cent. upon the net profits after charging such salary and commission.

In accordance with the terms of the Partnership Deed any excess over his former remuneration to which C. as a partner becomes entitled is to be provided out of A.'s share of the profit. The profits for the year ending 30th June, 1920, amount to £7,200. Divide this amount between A., B. and C.

	£ s. d.	£ s. d.
Profit for year ending 30th June, 1920		7,200 0 0
Less C.'s Salary	300 0 0	
C.'s Commission :—5 % on £6,571 8s. 7d.	328 11 5	
		628 11 5
		£6,571 8 7
		£ s. d.
C.'s share of profit is one-eighth of £7,200		900 0 0
Less Remuneration receivable in the capacity of Managing Clerk as above		628 11 5
Excess of C.'s present over former remuneration chargeable to A. personally		£271 8 7
		£ s. d.
A.'s share is four-fifths of £6,571 8s. 7d.		5,257 2 11
Less amount chargeable as above on account of C.'s share		271 8 7
		£4,985 14 4
B.'s share—one-fifth of £6,571 8s. 7d.		£1,314 5 8

Thus the profit of £7,200 for the year ending 30th June, 1920, will be divided between the partners as follows :—

	£ s. d.
A.	4,985 14 4
B.	1,314 5 8
C.	900 0 0
	£7,200 0 0

Notes to Illustration.

(1) To ascertain the figure of profit upon which C.'s commission would have been charged is merely an arithmetical calculation, based on the rule of three.

The easiest method of arriving at the correct result is to presume the profit upon which the calculation of commission has to be made to be £100.

The question then resolves itself into finding the figure which by deducting 5 per cent. of £100 (£5) will leave £100. Obviously the answer is £105.

Thus where the profit after charging salary, but prior to charging commission, is—

£105, the calculation is made upon £100

1 ,, ,, ,, $\frac{100}{105}$

£6,900 the calculation is made upon $\frac{100}{105} \times \frac{6,900}{1}$ = £6,571 8s. 7d.

(2) It should be noted that B. does not personally in any way lose through C. being admitted as a partner, as his share of the profits is based upon the figure of profit as it would have been had C. continued as the Managing Clerk.

(b) Readjustment of Partners' Shares over a period of years.

It occasionally happens that where an incoming Partner has been connected with the business for some time, the arrangements made on his entry into the firm are treated as retrospective for a certain period, as if he had become a partner from the point of view of sharing profits at an earlier date. In such cases the adjusting entry will require to be made at the commencement of the new Partnership, debiting the original members of the firm, and crediting the incoming Partner with the amount to which he is found to be entitled.

ILLUSTRATION—

A. and B. have carried on business for four years, their books showing the following results :—

		£	s.	d.
First year	Loss	788	0	0
Second year	Profit	3,635	0	0
Third year..	,,	4,129	0	0
Fourth year	,,	5,362	0	0

The Capital (on which no change has been recorded in the books during the four years) is A. £30,000, B. £20,000, the profits and losses being divisible in these proportions ; and in addition to the Capital there is a Loan from C. (the Manager) of £5,000 at 5 per cent. The above results are after charging 4½ per cent. on the Capital, 5 per cent. on the Loan, and C.'s salary of £500 per annum.

At the end of the fourth year the partners agree to adjust the accounts by treating C. as a partner from the commencement, his £5,000 entitling him to one-eleventh of the profits, and carrying 4½ per cent. interest instead of the 5 per cent. originally arranged, but his salary is reduced to £400 per annum for the whole period of four years.

Make the necessary Ledger entries to adjust the accounts to accord with the new arrangement, and show how the loss of the first year and the profits of the second, third and fourth years are divisible between A., B. and C.

Under the new arrangement the divisions are as follows :—

				£	s.	d.
First Year :—						
Loss £788 – Interest £25 and Salary £100 = Loss £663 ..	A.	30	.. ..	361	12	9
	B.	20	.. ..	241	1	10
	C.	5	.. ..	60	5	5
			Loss	£663	0	0
Second Year :—						
Profit £3,635 + Interest £25 and Salary £100 = Profit £3,760,	A.	30	.. ..	2,050	18	2
	B.	20	.. ..	1,367	5	5
	C.	5	.. ..	341	16	5
			PROFIT	£3,760	0	0
Third Year :—						
Profit £4,129 + Interest and Salary £125 = Profit £4,254,	A.	30	.. ..	2,320	7	3
	B.	20	.. ..	1,546	18	2
	C.	5	.. ..	386	14	7
			PROFIT	£4,254	0	0
Fourth Year :—						
Profit £5,362 + Interest and Salary £125 = Profit £5,487..	A.	30	.. ..	2,992	18	2
	B.	20	.. ..	1,995	5	5
	C.	5	.. ..	498	16	5
			PROFIT	£5,487	0	0

		£	s.	d.
By the above arrangement C. receives the following :—				
Second Year		341	16	5
Third "		386	14	7
Fourth "		498	16	5
		1,227	7	5
Less—First Year Loss	£60 5 5			
£125 per annum for 4 years, viz., 25 interest (½ % on £5,000) and £100 salary to be taken at £400 instead of £500	500 0 0	560	5	5
Net Credit for C.		£667	2	0

	£	s.	d.
Debit to A. three-fifths of £667 2s.	400	5	2
" " B. two-fifths of £667 2s.	266	16	10
	£667	2	0

A.'s Ledger Account will therefore be debited with £400 5s. 2d., and B.'s with £266 16s. 10d., and C.'s credited with £667 2s. 0d.

(c) Adjustment in Accounts where Interest on Capital has been omitted.

Where inadvertently Interest on Capital has been omitted, although agreed upon between the Partners, and it is subsequently desired to rectify the error without reopening the Accounts, an adjusting entry can be made at the commencement of the new period for this purpose.

ILLUSTRATION—

There are four partners in a business—A., B., C. and D. They are entitled under the Partnership Deed to profits in the following proportions, viz., A. to one-third, B. to one-fourth, C. to one-fourth, and D. to one-sixth part.

The Capital in the business is held as follows :—

	£	s.	d.
A.	15,000	0	0
B.	22,500	0	0
C.	30,000	0	0
D.	22,500	0	0

After the accounts for the year have been prepared and signed, it is discovered that Interest at 4 per cent. per annum (as agreed) has been omitted to be credited to the Partners' Capital Accounts. Instead of altering the signed Balance Sheet it is decided to make an adjusting Journal entry at the beginning of the new year, crediting or debiting the respective Partners' Accounts.

Make the necessary Journal entry.

JOURNAL.

	£ s. d.	£ s. d.
Sundries. *Dr.*		
To Sundries—		
A. one-third of £3,600 Interest on Capital..	1,200 0 0	
B. one-fourth ,, ,,	900 0 0	
C. one-fourth ,, ,,	900 0 0	
D. one-sixth ,, ,,	600 0 0	
A. 4% on £15,000		600 0 0
B. ,, ,, £22,500		900 0 0
C. ,, ,, £30,000		1,200 0 0
D. ,, ,, £22,500		900 0 0
Adjustment of Interest on Capital omitted in Profit and Loss Account.	£3,600 0 0	£3,600 0 0

(d) *Share of one Partner guaranteed at a Fixed Minimum.*

It sometimes happens that a Junior Partner's share in the profits of a business is represented by a percentage thereof, or a fixed minimum sum, whichever is greater. Where the minimum sum is greater than the percentage, the difference must be borne by the remaining partners in the same ratio as they share profits and losses.

ILLUSTRATION—

A., B. and C. are in partnership, sharing profits—one-half, one-third and one-sixth respectively.

C.'s share, however, is guaranteed by A. and B. at a fixed minimum of £400.

The Net Profits for the year amounted to £1,800. Show the appropriation thereof as between the partners.

APPROPRIATION ACCOUNT.

	£ s. d.	£ s. d.		£ s. d.
To A. three-sixths..	900 0 0		By Balance	1,800 0 0
,, B. two-sixths ..	600 0 0			
,, C. one-sixth ..	300 0 0			
		1,800 0 0		
		£1,800 0 0		£1,800 0 0
		£ s. d.		£ s. d.
To C.:— Further amount credited to him ..		100 0 0	By A. three-fifths	60 0 0
			,, B. two-fifths	40 0 0
		£100 0 0		£100 0 0

A. and B. sharing profits as three is to two must bear the additional amount to be credited to C. in the same proportion, *i.e.* three-fifths and two-fifths.

The net amounts to the credit of each partner will then be—

	£ s. d.
A.	840 0 0
B.	560 0 0
C.	400 0 0
	£1,800 0 0

SYNOPSIS OF CHAPTER VIII.

COMPANY ACCOUNTS.

§ 8.—PRELIMINARY AND FORMATION EXPENSES.

(*a*) Underwriting Commission.

(*b*) Commission on placing Shares.

9.—MORTGAGES AND DEBENTURES.

(*a*) Definition of Mortgage.

(*b*) Definition of Debenture.

(*c*) Debentures issued at a premium.

(*d*) Debentures issued at a discount.

(*e*) Debentures repayable at a premium.

(*f*) Redemption of Debentures.

(*g*) Debentures issued as collateral security for a loan.

10.—THE PURCHASE OF A PRIVATE BUSINESS BY A LIMITED COMPANY.

(*a*) Entries in the Books.

(*b*) Apportionment of Profit prior to incorporation.

11.—FORFEITED SHARES.

12.—BONUS SHARES.

(*a*) Issue of Bonus Shares at par.

(*b*) Issue of Bonus Shares at a premium.

(*c*) Application of Bonus to payment of Calls.

13.—PAYMENT OF INTEREST OUT OF CAPITAL.

14.—THE PREPARATION OF A COMPANY'S BOOKS AND ACCOUNTS FOR AUDIT.

15.—THE BALANCE SHEET AND ACCOUNTS OF A COMPANY.

(*a*) Form of the Accounts.

(*b*) Dividends.

(*c*) Appropriation Account.

(*d*) Contingent Liabilities.

(*e*) Arrears of Cumulative Preference Shares dividend.

16.—THE AMALGAMATION OF COMPANIES.

17.—THE ABSORPTION OF ONE LIMITED COMPANY BY ANOTHER.

(*a*) Journal entries for closing the Vendor Company's books.

(*b*) Journal entries for opening Purchasing Company's books.

(*c*) Shares issued at a premium valuation.

(*d*) Treatment of Revenue Balances.

(*e*) Treatment where shares are partly called up.

18.—REDUCTION OF CAPITAL.

(*a*) Writing off Capital not represented by available Assets.

(*b*) Return of Capital out of Profits.

(*c*) Other modes of Reduction.

19.—RECONSTRUCTIONS.

CHAPTER VIII.

COMPANY ACCOUNTS.

§ 1.—The Distinction between Partnerships and Limited Liability Companies.

Prior to the introduction of Limited Liability, members of a Company were liable jointly and severally for the whole of the debts of the Company. This having proved disastrous in many cases, an Act was passed in 1855 limiting the liability of the shareholders in Companies limited by shares to the extent of the nominal value of their shares, or, in the case of Companies limited by guarantee, to the extent of such guarantee.

The Law of Companies was consolidated by the Act of 1862, and numerous amending Acts were subsequently passed, being referred to, with the principal Act, as the Companies Acts, 1862 to 1907. These Acts have now been repealed and re-enacted in a codified form, by the Companies (Consolidation) Act, 1908, which came into force on the 1st April, 1909.

The principal distinctions between an Unlimited Partnership and a Limited Company (Limited Partnerships are discussed in Chapter VII.) are as follows :—

(1) In the case of an Unlimited Partnership, the liability of each member of the firm for the debts of the firm is unlimited; whereas in the case of a Company, the liability of each shareholder is limited to the nominal amount of his shares, and if such shares are fully paid up he is subject to no further liability.

(2) In the case of a Partnership, the number of partners is limited to 20, except in the case of a private banking concern, where the number is limited to 10 ; whereas in the case of a Company the number of shareholders is only limited by the number of shares authorized and issued. At the same time there must not be less than seven shareholders, except in the case of Private Companies, where the minimum number of members is two.

(3) If in a partnership the legal number of partners is exceeded, the Association is an illegal one, and, although it does not affect the question of their liability, seeing that this was unlimited in the first instance, they cannot take action for the recovery of debts, although they are capable of being sued. In the case of a Public Company, if the number sinks below seven this is good ground for the presentation of a petition for winding up, but as regards the liability of the members, six months' grace is given, and after this time has expired all those members cognisant of the fact that the number has sunk below seven are liable for the whole of the debts of the Company contracted after the expiration of the six months.

(4) In the case of an Unlimited Partnership, each individual member can presumably manage the business, and can legally bind the firm by his actions with the outside world; whereas in the case of a Company, the rights of management are delegated to a certain number of the shareholders called directors, who alone can bind the Company.

(5) In the case of a Partnership, each partner is entitled to have access to the books and accounts of the firm; whereas in the case of a Company, the right of the members to inspection depends on the Articles, with the exception of the books open for inspection by Statute.

(6) In the case of a Partnership, the rights of the partners between themselves are governed by mutual agreement, and generally by a Deed of Partnership, which can be varied by mutual agreement. In the case of a Company, the powers, which cannot be altered without consent of the Court, are defined by the Memorandum; and the powers and duties of the directors carrying on the business are defined by the Articles, which can only be altered by special resolution of the Company in general meeting.

(7) A Partnership is subject to the general provisions of the Partnership Act, 1890, which, however, can be varied by mutual agreement; a Company is governed by the Companies Act, which cannot be varied legally by the Company.

(8) The capital of a Partnership is contributed by the partners according to agreement, and is not necessarily fixed in amount, being frequently increased by undrawn profits, or reduced by losses sustained; whereas in the case of a Company, the authorized capital is fixed by the Memorandum, and cannot be reduced without leave of the Court, except in certain cases, nor increased except in the manner provided by Statute.

(9) In the case of a private firm, an annual audit is not compulsory, whereas it is in the case of a Company.

(10) A Partnership is not regarded by the Law as a distinct entity apart from the persons composing it, whereas a Company is so regarded.

(11) The profits earned by a Partnership are not subject to Corporation Profits Tax.

§ 2.—Private Companies.

A Private Company is defined by the Companies (Consolidation) Act, 1908, § 121, as amended by the Companies Act, 1913, § 2, as follows:—

A Company which by its Articles—

(*a*) Restricts the right to transfer its shares; and

(*b*) Limits the number of its members (exclusive of persons who are in the employment of the Company and of persons who having been formerly in the employment of the Company, were while in such employment and have continued after the determination of such employment to be members of the Company) to 50; and

(*c*) Prohibits any invitation to the public to subscribe for any shares or debentures of the Company.

If default is made in complying with any of these provisions the Company will cease to be entitled to the privileges and exemptions conferred on Private Companies.

Wherever in the Companies Acts a minimum of seven members is required, only two members shall be required in the case of a Private Company.

Certain privileges are accorded to Private Companies as follows :—

(1) They are not obliged to file a Prospectus, or a Statement in lieu of a Prospectus, with the Registrar of Joint Stock Companies.

(2) They are not obliged to file or include a statement in the form of a Balance Sheet with the Summary filed with the Registrar under § 26 of the Companies (Consolidation) Act, 1908.

(3) They are not obliged to forward to the members or to file the Statutory Report under § 65 of the Companies (Consolidation) Act, 1908.

(4) The right given to holders of preference shares and debentures in Public Companies under § 114 of the Companies (Consolidation) Act, 1908, to receive and inspect the Balance Sheets of the Company and the Reports of the Auditors, &c., does not apply.

(5) The minimum number of members may be two instead of seven.

(6) The Company can commence business as soon as it is incorporated, without waiting for the certificate entitling it to commence business.

(7) The restrictions on appointment of directors and allotment of shares do not apply.

Every Private Company must send with the Annual Summary a Certificate showing that it has not issued any invitation to the public to take Shares or Debentures, and that the legal number of Members has not been exceeded.

§ 3.—The Memorandum and Articles of Association.

This is the term given to the documents forming the constitution of a Company, and defining its objects and powers.

(*a*) The *Memorandum* contains five clauses—

(1) Name of Company.

(2) The situation of registered office.

(3) The objects of the Company.

(4) A declaration that the liability of the members is limited.

(5) The amount of capital, and the shares into which it is divided.

This Memorandum must be signed by the signatories of the Company, these being seven in number, holding not less than one share each, or in the case of Private Companies two in number.

(*b*) The *Articles* contain the rules and regulations for conducting the business of the Company, and define the powers and duties of the Directors. The principal clauses will be as follows :—

(1) A declaration as to how far the provisions of Table A apply, or whether they are expressly excluded. In so far as the Articles do not exclude or modify the regulations in Table A, the same apply as far as they are applicable.

Table A is a model set of Articles which have to be adopted by any Company not having Articles of its own. The original Table A applies only to Companies registered before 1st October, 1906 ; the revised Table A applies to any Company registered subsequently, and any Company working under the original Table A adopting it by special resolution. The present form of the revised Table forms an Appendix to the Companies (Consolidation) Act, 1908.

(2) A recital of the basis on which the Company is constituted.

(3) The regulations as to the issue of capital, minimum subscription, payment of underwriting commission, &c.

(4) Making calls.

(5) Holding, transferring and transmission of shares.

(6) Loans on and forfeiture and surrender of shares.

(7) Procedure of general meetings.

(8) Votes of members.

(9) Directors—their number, remuneration, qualification, rotation, disqualification and removal.

(10) Appointment and powers of managing directors.

(11) Proceedings and powers of the Board.

(12) Accounts and audit.

(13) Dividends and reserves.

(14) Notices to members.

(15) Rights of shareholders *inter se*.

§ 4.—The Statutory Books and Returns.

(a) The Register of Members.

This book is required under § 25 of the Companies (Consolidation) Act, 1908, which provides as follows :—

25.—(1) Every Company shall keep in one or more books a Register of its Members, and enter therein the following particulars :—

(i) The names and addresses, and the occupations, if any, of the members, and in the case of a Company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member ;

(ii) The date at which each person was entered in the Register as a member ;

(iii) The date at which any person ceased to be a member.

The Annual List and Summary referred to below must also be contained in a separate part of the Register of Members.

(b) The Register of Mortgages.

This book is required under § 100 of the Companies (Consolidation) Act, 1908, which provides as follows :—

100.—(1) Every Limited Company shall keep a register of mortgages and enter therein all mortgages and charges specifically affecting property of the Company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto.

This book must be open to inspection by any creditor or member of the Company at all reasonable times without charge, and to any other person on payment of a fee not exceeding one shilling.

The following is the usual form of this book :—

ILLUSTRATION—

REGISTER OF MORTGAGES.

Date of Charge.	Name and Address of Mortgagee.	Short Particulars of Property Charged.	Amount of Charge.			Remarks.

(c) Annual List of Members and Summary.

This return is required under § 26 of the Companies (Consolidation) Act, 1908, which provides as follows :—

26.—(1) Every Company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the Company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the Company.

(2) The list must state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the Company by persons who are still members and have ceased to be members respectively and the dates of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid up otherwise than in cash, and specifying the following particulars :—

(*a*) The amount of the share capital of the Company, and the number of shares into which it is divided ;

(*b*) The number of shares taken from the commencement of the Company up to the date of the return ;

(*c*) The amount called up on each share ;

(*d*) The total amount of calls received ;

(*e*) The total amount of calls unpaid ;

(*f*) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return ;

(*g*) The total number of shares forfeited ;

(*h*) The total amount of shares or stock for which share warrants are outstanding at the date of the return ;

(*i*) The total amount of share warrants issued and surrendered respectively since the date of the last return ;

(*k*) The number of shares or amount of stock comprised in each share warrant ;

(*l*) The names and addresses of the persons who at the date of the return are the directors of the Company, or occupy the position of directors, by whatever name called ; and

(*m*) The total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies under this Act, or which would have been required so to be registered if created after the first day of July, nineteen hundred and eight.

(3) The summary must also (except where the Company is a private Company) include a statement made up to such date as may be specified in the statement, in the form of a balance sheet, audited by the Company's auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the values of the fixed assets have been arrived at, but the balance sheet need not include a statement of profit and loss.

(4) The above list and summary must be contained in a separate part of the register of members, and must be completed within seven days after the fourteenth day aforesaid, and the Company must forthwith forward to the Registrar of Companies a copy signed by the manager or by the secretary of the Company.

The following is the Statutory form of this Summary :—

Summary of Share Capital and Shares of the Company, Limited, made up to the day of 19 (being the fourteenth day after the date of the first ordinary general meeting in 19).

Nominal share capital £ divided into* { shares of £ each. / shares of £ each

Total number of shares taken up* to the day of 19 (which number must agree with the total shown in the list as held by existing members).

Number of shares issued subject to payment wholly in cash .. ..

Number of shares issued as fully paid up otherwise than in cash ..

Number of shares issued as partly paid up to the extent of per share otherwise than in cash .. ..

† There has been called up on each of shares .. .. £ .

There has been called up on each of shares .. .. £ .

† There has been called up on each of shares .. .. £ .

‡ Total amount of calls received, including payments on application and allotment .. .. £ .

Total amount (if any) agreed to be considered as paid on shares which have been issued as fully paid up otherwise than in cash .. £ .

Total amount (if any) agreed to be considered as paid on shares which have been issued as partly paid up to the extent of per share .. .. £ .

Total amount of calls unpaid .. .. £ .

Total amount (if any) of sums paid by way of commission in respect of shares or debentures or allowed by way of discount since date of last summary .. .. £ .

Total amount (if any) paid on § shares forfeited .. .. £ .

Total amount of shares and stock for which share warrants are outstanding .. .. £ .

Total amount of share warrants issued and surrendered respectively since date of last summary .. .. £ .

Number of shares or amount of stock comprised in each share warrant

Total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created after the first day of July, nineteen hundred and eight .. .. .. £

STATEMENT in the form of a balance sheet made up to the day of 19 containing the particulars of the capital, liabilities, and assets of the Company.

---

* When there are shares of different kinds or amounts (*e.g.* Preference and Ordinary, or £10 or £5) state the numbers and nominal values separately.

† Where various amounts have been called, or there are shares of different kinds, state them separately.

‡ Include what has been received on forfeited as well as on existing shares.

§ State the aggregate number of shares forfeited (if any).

The return must be signed at the end by the manager or secretary of the Company.

Presented for filing by____________________

LIST OF PERSONS holding shares in the Company, Limited, on the day of 19 , and of persons who have held shares therein at any time since the date of the last return, showing their names and addresses and an account of the shares so held.

Folio in Register Ledger containing Particulars.	Names, Addresses, and Occupations.				Account of Shares.					Remarks.
	Surname.	Christian Name.	Address.	Occupation.	*Numb of Shares held by existing Members at date of Return.	‡ Particulars of Shares transferred since the Date of the last Return by Persons who are still Members.		‡ Particulars of Shares transferred since the Date of the last Return by Persons who have ceased to be Members.		
						Number.†	Date of Registration of Transfer.	Number.†	Date of Registration of Transfer.	

* The aggregate number of shares held, and not the distinctive numbers, must be stated, and the column must be added up throughout so as to make one total to agree with that stated in the summary to have been taken up.

† When the shares are of different classes these columns may be subdivided so that the number of each class held or transferred may be shown separately.

‡ The date of registration of each transfer should be given as well as the number of shares transferred on each date. The particulars should be placed opposite the name of the transferor, and not opposite that of the transferee, but the name of the transferee may be inserted in the "Remarks" column immediately opposite the particulars of each transfer.

NAMES and ADDRESSES of the persons who are the Directors of the Limited, on the day of 19 .

Names.	Addresses.

NOTE.—Banking Companies must add a list of all their places of business.

(Signature)____________________

(State whether manager or secretary)____________________

(d) Minute Books.

Minutes of all meetings of Shareholders and Directors are required to be entered in books under § 71 of the Companies (Consolidation) Act, 1908, which provides as follows :—

71.—(1) Every Company shall cause minutes of all proceedings of general meetings and (where there are directors or managers) of its directors or managers to be entered in books kept for that purpose.

(2) Any such minute, if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

(e) Register of Directors and Managers.

This book is required under § 75 of the Companies (Consolidation) Act, 1908, which provides as follows :—

75.—(1) Every Company shall keep at its registered office a register containing the names and addresses and the occupations of its directors or managers, and send to the Registrar of Companies a copy thereof, and from time to time notify to the Registrar any change among its directors or managers.

(f) The Directors' Report for the Statutory Meeting.

The Statutory Meeting of a Company must be held not less than one month nor more than three months after the Company is entitled to commence business. A Statutory Report must be prepared, to be laid before the meeting in the case of all Companies other than private companies, and this must, seven days before the date fixed for the holding of the meeting, be forwarded to every member of the Company, and every other person entitled to receive it, *i.e.*, preference shareholders and debenture holders. A copy must also be filed with the Registrar of Joint Stock Companies.

The Report, which must be certified by not less than two Directors or by the sole Director, if there is only one, must show :—

(*a*) The total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(*b*) The total amount of cash received by the Company in respect of all the shares allotted, distinguished as aforesaid;

(*c*) An abstract of the receipts of the Company on account of its capital, whether from shares or debentures, and of the payments made thereout, up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the Company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the Company;

(*d*) The names, addresses and descriptions of the Directors, Auditors (if any), Managers (if any), and Secretary of the Company; and

(*e*) The particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification, or proposed modification.

The first three of these clauses, except the account or estimate of preliminary expenses, must be certified as correct by the Auditors of the Company (if any).

ILLUSTRATION—

The Explorations Trust, Limited (directors, H. Martin, J. Williams, and J. Smithson; secretary, T. Mason; auditors, Gilbertson & Co.), was entitled to commence business on 1st April, 1920.

80,000 shares of 10s. each had been applied for and duly allotted, and 2s. 6d. per share payable on application, with 2s. 6d. per share payable on allotment, had been received by the Company. An additional 10,000 shares were, under the purchase agreement, allotted to the vendors as fully-paid.

Prepare the statutory report necessary under § 65 of the Companies (Consolidation) Act, 1908.

The following payments had been made prior to the date of the report, viz.:—

	£	s.	d.
On Account of Preliminary Expenses	2,500	0	0
Investments	10,000	0	0
Directors' Fees, &c.	250	0	0
Printing and Stationery, Postages and Sundries	45	0	0

And the balance of Cash in hand is at Glyn's Bank on Deposit and Current Account.

The Preliminary Expenses are estimated in the prospectus at £3,500.

THE COMPANIES (CONSOLIDATION) ACT 1908."

REPORT

(Pursuant to Section 65 of The Companies (Consolidation) Act, 1908)

OF

THE EXPLORATIONS TRUST, LIMITED.

To be certified by not less than two Directors, or by the Sole Director and Manager where there is only one, and forwarded at least seven days before the Statutory Meeting to every Member and Debenture Holder of the Company, and to be filed with the Registrar of Companies forthwith after it is so forwarded. Section 65, Sub-sections 2, 3, and 5, and Section 114 of The Companies (Consolidation) Act, 1908.

(*a*) The total number of shares allotted is 90,000, of which 10,000 are allotted as fully paid up in consideration of (*as per purchase agreement*), and upon each of the remaining shares the sum of 5s. has been paid in cash.

(*b*) The total amount of cash received by the Company in respect of the shares issued wholly for cash is £20,000

(*c*) The Receipts and Payments of the Company on Capital Account to 20th June, 1920, are as follow:—

Particulars of Receipts.	£	s.	d.	Particulars of Payments.	£	s.	d.
To Amount Received on Application and Allotment of 80,000 Shares.. ..	20,000	0	0	By Preliminary Expenses	2,500	0	0
				,, Investments	10,000	0	0
				,, Directors' Fees	250	0	0
				,, Printing, Stationery, &c.	45	0	0
				,, Balance on Deposit and Current Account at Glyn's Bank	7,205	0	0
	£20,000	0	0		£20,000	0	0

The following is an Account (or Estimate) of the Preliminary Expenses of the Company

	£ s. d.
Estimated at..	3,500 0 0

(*d*) Names, Addresses and Descriptions of the Directors, Auditors (if any), Managers (if any), and Secretary of the Company.

DIRECTORS.

Surname.	Christian Name.	Address.	Description.
Martin	Henry		
Williams	John		
Smithson	James		

AUDITORS.

Surname.	Christian Name.	Address.	Description.
Gilbertson & Co.			

MANAGERS.

Surname.	Christian Name.	Address.	Description.

SECRETARY.

Surname.	Christian Name.	Address.	Description.
Mason	Thomas		

(*e*) Particulars of any Contract the modification of which is to be submitted to the Meeting for its approval, together with the particulars of the modification or proposed modification.

We hereby certify this Report.

H. MARTIN,
J. WILLIAMS, } *Directors*.

We hereby certify that so much of this Report as relates to the shares allotted by the Company and to the Cash received in respect of such shares and to the receipts and payments of the Company on Capital Account is correct.

GILBERTSON & CO., *Auditors*.

Dated the 21st day of June, 1920.

Note.

It is doubtful whether Revenue items need be included in the particulars of Receipts and Payments, but it is the more usual course to include them in order that the exact Cash balance may be shewn.

§ 5.—The Various Classes of Share Capital.

The share capital of a Company is frequently divided into different classes, of which the following are the most usual :—

(a) Preference Shares.

These may be either *Simple* or *Cumulative*. The former only carry right to a fixed dividend out of the profits of any year, and if there are insufficient profits in that year to pay the full amount of dividend, they have no right to have such arrears made up out of future profits. They may or may not have a right in respect to repayment of Capital in priority to other classes of shares in the event of liquidation.

Cumulative Preference Shares entitle the holders to a fixed rate of dividend in the same way as Simple Preference Shares, but with the additional right that any arrears of dividend shall be made up out of future profits in priority to any dividends on other classes of shares.

The rights of Preference Shareholders are entirely governed by the Memorandum and Articles of Association, and there are many other varieties than the two enumerated above ; such as, for example, those giving a right to participate in further dividends after the Ordinary Shares have received a certain rate per cent. It should be remembered that, in the absence of express provision in the Articles to the contrary, Preference Shares are Cumulative, and are entitled to rank *pari passu* with other classes of shares in the division of a capital surplus on liquidation, whether or not they have priority as to repayment of Capital.

(b) Ordinary Shares.

Ordinary Shares are those taking the surplus profits remaining after satisfaction of prior interests (if any).

These may be divided as between Preferred and Deferred Ordinary Shares, the former having a preferential right to a fixed rate of dividend over the latter, while the latter frequently have a right to the whole, or a proportion of the surplus profits after the provision of dividends on other classes of shares.

(c) Founders' Shares or Deferred Shares.

These shares are usually limited in number, and are sometimes issued fully paid to the original vendors or their nominees, in consideration either of part of the purchase price or of services connected with the formation of the Company. Generally they only rank for dividend after other classes of shares have received certain rates of dividend, when they are then entitled to the whole or a portion of the Surplus Profits.

(d) The distinction between Stock and Shares.

The chief differences are as follows :—

(*a*) Stock must be fully paid up, whereas Shares need only be partly paid up.

(*b*) Stock may be issued or transferred in fractional parts; Shares cannot be divided below the nominal value of each Share.

(*c*) Each Share is distinguished by a separate number; Stock possesses no numbers.

§ 6.—The Application and Allotment of Shares.

(a) Application Letters.

When the Directors decide to issue Shares, forms of Application Letters will be sent out to those persons who are considered most likely to subscribe, or the same may be printed at the foot of the advertisements of the Prospectus.

In the great majority of cases subscribers are required to remit the amount payable on application direct to the Company's Bankers, who issue formal receipts. The following is a typical form of Application Letter with Bankers' Receipt attached :—

This Sheet should be sent ENTIRE, with the deposit of 1s. per Share applied for, to THE GENERAL BANKING CORPORATION, Limited, London Wall, E.C.

ILLUSTRATION—

THE TRADING COMPANY, LIMITED.

FORM OF APPLICATION FOR PREFERENCE SHARES.

No...........

To the Directors of

THE TRADING COMPANY, LIMITED.

GENTLEMEN,

Having paid to the Bankers of the Company the sum of £.......... being a deposit of 1s. per Share on application for.......... Preference Shares of £1 each in the above-named Company, I request you to allot to me that number of Preference Shares, upon the terms of the Company's Prospectus dated.......... and I agree to accept the same or any smaller number that may be allotted to me, and I agree to pay the further instalments at the dates and as provided by the said Prospectus, and I authorise you to register me as the holder of the said Preference Shares.

NOTE: Please write very distinctly.

Name (in full)..........
(Mr., Mrs. or Miss)

Address (in full)..........

Description..........

Signature..........

Date..........

All Cheques to be made payable to the Company's Bankers. A separate Cheque should accompany each separate Application.

THE TRADING COMPANY, LIMITED.

BANKERS' RECEIPT.

No...........

Received *this*..........*day of*..........19.........,

from..........

for the credit of THE TRADING COMPANY, LIMITED, *the sum of* £..........

being a Deposit of 1s. *per Share on* .... *Preference Shares of* £1 *each in the above-named Company.*

FOR THE GENERAL BANKING CORPORATION, LIMITED.

£ : :

STAMP.

.... *Cashier.*

This Receipt, when returned from the Bankers, to be preserved by the Applicant for exchange in due course for Share Certificate.

(b) Application and Allotment Book.

Each day the Company will obtain from the Bank the Pass Book and Application Letters, and these will be entered up immediately in an *Application and Allotment Book*, a form of which is as follows:—

ILLUSTRATION—

APPLICATION AND ALLOTMENT BOOK.

Number of Application.	Date Received.	NAME.	ADDRESS.	Description.	No. of Shares applied for.	ALLOTMENT.				Amount paid on application.	AMOUNT DUE AND PAID ON ALLOTMENT.				Calls paid in advance.	Amount returnable (if any).	Share Ledger Folio.	No. of Share Certificate.	REMARKS.
						Date.	No. of Shares allotted.	Distinctive No. of Shares.			Amount payable.	Date paid.	Cash Book Folio.	Amount paid.					
								From	To										

Each Application Letter will be numbered in consecutive order as received, and the name, address and description of the Applicant, the number of shares applied for, and the amount paid on application, will be entered in the Application and Allotment Book. As soon as the lists are closed, and it is ascertained that the Minimum Subscription has been reached, the Directors will proceed to allot the shares, and Minutes of all Allotments will appear in the Directors' Minute Book. The Application and Allotment Book should be also initialled by one of the Directors at the point to which Allotments have been made. The number of shares allotted and the distinctive numbers of such shares, together with the amount payable on allotment, will be entered in the columns provided for that purpose.

(c) Letters of Allotment and Regret.

Letters of Allotment require to be stamped. If the amount to which the letter relates is under £5, the duty is One Penny, otherwise Sixpence. In the event of the issue being over-subscribed, or if for any other reason applications are refused or only allotted in part, the necessary particulars must be entered in the columns provided for that purpose in the Application and Allotment Book, and a Letter of Regret forwarded to the Applicant. The following is a typical form of an Allotment Letter :—

ILLUSTRATION—

THE TRADING COMPANY, LIMITED.

LETTER OF ALLOTMENT.

No.........................

LONDON, E.C., ... 19........

SIR, or MADAM,

In accordance with your application, I beg to inform you that the Directors have allotted to you ....Shares in this Company.

The total amount payable on the above Shares upon Application and Allotment is	£ :	:	
You have paid on application	£ :	:	
Leaving still to be paid by you...	£ :	:	

which sum is now due, and must be paid to the Company's Bankers, THE GENERAL BANKING CORPORATION, LIMITED, London Wall, London, E.C.

I am, SIR, or MADAM,

Yours faithfully,

Secretary.

To

....

THIS PORTION TO BE RETAINED BY THE BANKERS.

THE TRADING COMPANY, LIMITED.

Bankers' Receipt for Amount payable on Allotment.

No......................

Received *this* *day of* 19........,

from ....

the sum of £ *being* ......*per Share payable on allotment*

of *Shares in the above Company.*

For THE GENERAL BANKING CORPORATION, LIMITED,

£ : :

STAMP.

Cashier.

N.B.—This receipt to be retained by the Proprietor, and exchanged for Certificate in due course.

THE GENERAL BANKING CORPORATION, Limited, London Wall, E.C.

(d) Vendors' and Signatories' Shares.

The shares subscribed for by the Signatories to the Memorandum and Articles of Association do not require to be specifically allotted, but should, nevertheless, be entered in the Application and Allotment Book in the first instance. As regards shares allotted to Vendors and others, for a consideration other than cash, when these are allotted they should be entered in the Application and Allotment Book on a separate sheet, so as to avoid their being confused with Shares Issued for Cash. When shares are issued to Nominees of the Vendor, a written authority must be obtained from him, authorizing the Company to allot to such Nominees, and containing a list of the parties, with their names, addresses and descriptions, and the number of shares to be allotted to each.

When the Pass Book is received from the Bankers each day, the amounts received on Application and Allotment will be entered in the Cash Book, and also in the columns provided for that purpose in the Application and Allotment Book. The details each day will be inserted in an inner column of the Cash Book, and the totals extended into the outer column. The items will be posted in detail to the credit of the Shareholders' Cash Accounts in the Share Ledger, and in total to the credit of the Application and Allotment Account in the General Ledger.

(e) Calls.

In some cases columns are provided in the Application and Allotment Book for Calls, but it is more usual to have separate *Call Books*, which are provided with columns showing the amount due, and the date and amount of payment. *Call Letters* will be issued with forms of Bankers' Receipts attached, calls being payable direct to the Company's Bankers, in the same way as amounts due on allotment.

In due course Certificates will be made out and issued to the Shareholders in exchange for their Allotment Letters and Bankers' Receipts for Application, Allotment and Calls.

(f) Return of Allotments.

Under § 88 of the Companies (Consolidation) Act, 1908, whenever a Company Limited by Shares makes any allotment of its shares, the Company shall, within one month thereafter, file with the Registrar—

(1) A return of the allotments, stating the number and nominal amount of the shares comprised in the allotment, the names, addresses and descriptions of the allottees, and the amount (if any) paid or due and payable on each share ; and

(2) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment, or, if there is no contract in writing a statement in lieu thereof, together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

If default is made in complying with the requirements of this section, every Director, Manager, Secretary or other officer of the Company who is knowingly a party to the default shall be liable to a fine not exceeding fifty pounds for every day during which the default continues.

(g) Journal Entries relating to the Issue of Shares.

Each time that an allotment of shares is made an entry should be made in the Journal, debiting an Application and Allotment Account with the amount payable on application and allotment in respect of the shares so allotted, and crediting Share Capital Account, reference being made to the Minutes of Allotment and to the pages in the Application and Allotment Book, where the details are shown. If more than one class of Capital is being issued, separate accounts must be opened in the ledger for each class.

Similar entries must be made debiting the Vendor or other persons, and crediting Share Capital, in respect of all shares issued for a consideration other than cash, reference being made to the Minutes of Allotment, and to the contract under which the shares are issued.

When calls are made, an entry must be made debiting Call Account and crediting Share Capital Account with the total amount due in respect of the call.

(h) Shares issued at a Premium.

While shares cannot be issued at a discount, they are frequently issued at a premium. When this is done, the premium is in the nature of a Capital Receipt, and the proceeds thereof should be retained in the business for use as working capital, or specifically invested. Premiums should not be treated as Revenue Profits, or utilized in the payment of dividends, although, unless the Articles state otherwise, there is nothing to prevent the Company doing so. They may, however, be used for the purpose of writing off fictitious assets, such as preliminary expenses, or writing down Goodwill, or other fixed assets.

The premium is usually made payable with the instalment due on allotment, and consequently the Journal Entry for allotment must contain the amount in respect of premium, but this latter portion should not be credited to Share Capital Account, but direct to a separate Premium on Shares Account, the balance of which may subsequently be transferred to General Reserve Account.

The only reason why shares can be issued at a Premium is because high dividends have been paid on shares already issued, and it is expected that high dividends will be paid on the shares about to be issued. If, however, the premium on these shares is distributed as dividend, and only the nominal value retained in the business for working capital, it is improbable that by the use of such capital the high rate of dividend previously declared will be earned on the additional shares issued. But of course this argument will not always apply, and the financial policy to be adopted must be determined according to the circumstances of each case.

ILLUSTRATION—

On 30th April, 1920, a Company goes to allotment, and the following shares are allotted :—
80,000 Ordinary Shares of £1 each ;
50,000 5 per Cent. Preference Shares of £1 each,
payable as follows : 2s. 6d. on application, 2s. 6d. on allotment, 5s. one month after allotment, and 10s. three months after allotment. The Ordinary Shares are issued at a premium of 2s. 6d. per share, payable on allotment. Make the Journal entries recording these transactions.

JOURNAL.

		£ s. d.	£ s. d.
1920. April 30	Application and Allotment Account (Ordinary Shares) .. .. *Dr.*	30,000 0 0	
	To Sundries—		
	Ordinary Share Capital Account		20,000 0 0
	Premium on Share Account		10,000 0 0
	Being 2s. 6d. on application and 5s. on allotment (2s. 6d. thereof being premium) on 80,000 Ordinary Shares of £1 each, allotted as per minute of this date.	£30,000 0 0	£30,000 0 0
April 30	Application and Allotment Account (Preference Shares) .. .. *Dr.*	12,500 0 0	
	To Preference Share Capital Account		12,500 0 0
	Being 2s. 6d. on application and 2s. 6d. on allotment of 50,000 Preference Shares of £1 each, allotted as per minute of this date.		
May 31	First Call Account (Ordinary Shares) .. .. *Dr.*	20,000 0 0	
	To Ordinary Share Capital Account		20,000 0 0
	Being First Call of 5s. on 80,000 Ordinary Shares of £1 each.		
May 31	First Call Account (Preference Shares) .. .. *Dr.*	12,500 0 0	
	To Preference Share Capital Account		12,500 0 0
	Being First Call of 5s. on 50,000 Preference Shares of £1 each.		
July 31	Final Call Account (Ordinary Shares) .. .. *Dr.*	40,000 0 0	
	To Ordinary Share Capital Account		40,000 0 0
	Being Final Call of 10s. on 80,000 Ordinary Shares.		
July 31	Final Call Account (Preference Shares) .. .. *Dr.*	25,000 0 0	
	To Preference Share Capital Account		25,000 0 0
	Being Final Call of 10s. on 50,000 Preference Shares.		

§ 7.—The Share Books.

(a) The Share Ledger.

This book, which is often arranged so that it can be utilized as the Register of Members required to be kept by Statute, as previously mentioned, contains an account for each Shareholder, showing the number of shares he has acquired, the number he has transferred, and the balance standing in his name. If shares are issued partly paid up, cash columns must be provided to record the payment of Calls. As soon, however, as the shares become fully paid, the cash columns will no longer be necessary. Where there are different classes of shares, there must either be separate Share Ledgers for each class, or separate columns must be provided in order to distinguish between the various classes of shares held by each Member. The following is a convenient form of ruling :—

ILLUSTRATION—

SHARE LEDGER.

Name

Address

Description

Dr. CASH ACCOUNT. Cr.

Date.	Particulars.	Fo.	Amount.	Date.	Particulars.	Fo.	Amount.

Shares Acquired.							Shares Transferred.							Balance.		
Date of Allotment or Registration.	No. of Allotment or Transfer	Share Ledger Folio.	Number of Shares acquired.	Distinctive Numbers.		Amount paid per Share.	Date.	No. of Transfer.	Share Ledger Folio.	Number of Shares Transferred.	Distinctive Numbers.		Amount paid per Share.	Date.	No. of Shares.	Amount.
				From	To						From	To				

Note to Illustration.

The amounts payable on application and allotment and calls by each Shareholder will be posted from the Application and Allotment and Call Books to the debit of that Shareholder's Cash Account in the Share Ledger, and cash received from him in respect thereof will be credited to his cash account in the Share Ledger from the Shareholders' Cash Book.

The debit balance (if any) on the cash columns of the Shareholder's Account in the Share Ledger will represent the amount due by him in respect of calls, &c., unpaid, whereas a credit balance will represent calls paid in advance. At balancing periods the balances of these cash columns will be extracted, and the total thereof agreed with the balance of the Call Accounts, representing calls in arrear or calls paid in advance.

(b) The Register of Transfers.

This book is utilized to record particulars of all transfers registered by the Company, and from it the posting will be made into the Share Ledger. In some cases it is the practice to dispense altogether with this book, the transfers themselves being filed, and the postings made direct from them into the Share Ledger. This, of course, saves a considerable amount of labour, and possesses the possible advantage that error is less likely to arise since the posting is made direct from the original document, instead of the particulars being first copied into a subsidiary book. At the same time the absence of the Register is inconvenient for purposes of reference and check on the transfer fees received. It is usual for the Directors, after passing the transfers to any given date, to initial the Transfer Book accordingly, and this advantage is also lost when no Register is kept.

The following is a convenient form for general purposes :—

ILLUSTRATION—

REGISTER OF TRANSFERS.

No. of Deed.	Date of Registration.	No. of old Certificate.	Share Ledger Folio.	Transferor.			Number of Shares Transferred.	Distinctive Numbers.		Transferee.			No. of new Certificate.	Share Ledger Folio.	Remarks.
				Name.	Address.	Description.		From	To	Name.	Address.	Description.			

(c) The Share Warrant Register.

It is a common practice among certain Companies, particularly those who have foreign Shareholders, to issue *Share Warrants to Bearer*, instead of having certificates which require registration. In such a case, since these Share Warrants are in the nature of negotiable instruments, a precise record must be kept of all those printed, and of all those issued, and to whom. For this purpose a *Share Warrant Register* will be utilized, to show to whom the warrants were issued, the numbers of such warrants, and the distinctive numbers of the shares to which they relate.

Share Warrants can only be issued in respect of shares fully paid up.

§ 8.—Preliminary and Formation Expenses.

This is the term given to the expenses incident to the creation and flotation of a Company. The following items are usually found :—

(1) Stamp duties and fees on the Nominal Capital, and stamps on the contracts transferring the assets.

(2) The law costs of preparing the Prospectus, Memorandum and Articles of Association and Contracts, and of the Registration of the Company.

(3) Accountants' and Valuers' Fees for Certificates, &c.

(4) Printing Memorandum and Articles of Association, advertising and issue of prospectuses.

(5) Underwriting Commission, and Commission on placing shares.

(*a*) *Underwriting Commission* is the amount payable to persons who undertake to subscribe for a certain number of shares in the event of the public not taking up the whole of the shares offered. An underwriting contract is therefore in

the nature of a speculation. If the public respond to the total extent of the shares offered, the underwriters receive their commission, and do not have to take up any shares. If the public only partially respond, the underwriters have to take up the shares not subscribed for in proportion to their contracts. It is usual for the underwriters to make formal application for the shares they underwrite, on the understanding that allotments will be made only to the extent to which the public do not apply.

(*b*) *Commission on placing shares* is an amount payable to parties who introduce persons to the Company willing to become Members, and to take up shares accordingly. This commission, therefore, differs from Underwriting Commission in so far as it is not a speculative transaction, and is only paid in the event of Capital being introduced.

These payments are authorized by § 89 of the Companies (Consolidation) Act, 1908. The amount or rate per cent. of the Commission must be authorized by the Articles of Association, and disclosed in the Prospectus, or the Statement required to be filed with the Registrar in lieu thereof, and in any invitation to subscribe for shares not being a Prospectus.

This Commission is usually payable in cash, but sometimes by the issue of fully paid shares, or partly in one form and partly in the other.

Under § 90 of the Companies (Consolidation) Act, 1908, the total amount of this Commission, together with any discount on the issue of Debentures, or so much thereof as has not been written off, must be stated in every Balance Sheet until the whole amount has been written off.

(6) Brokerage on placing Shares.

This is an amount payable to Brokers whose clients subscribe for shares in the Company on Application Forms Stamped with the Brokers' Stamp.

(7) Cost of printing Share Certificates, &c., and cost of original books.

These preliminary and formation expenses are sometimes borne entirely by the Company, and sometimes by the Vendors, or apportioned between these parties, the expenses up to allotment being payable by the Vendors, and the expenses afterwards by the Company. Care must be taken to see that the Company is only charged with expenses properly payable by it.

This expenditure is, strictly speaking, of a Capital nature, but as it is unrepresented by available assets, it is usual to write it off as soon as possible out of Revenue, the usual period being from three to five years. The balance not written off will be carried forward in the Balance Sheet on the asset side, Underwriting and other Commission on the issue of shares being shown separately.

§ 9.—Mortgages and Debentures.

(a) Definition of Mortgage.

A Mortgage is a conditional transfer of property made for the purpose of securing repayment of a loan with interest. Until default is made in the terms of the Deed, either as regards the payment of interest or the repayment of principal, or in any other way, the Mortgagor (*i.e.* the borrower) retains possession and use of the property, but as he does not possess the legal title thereto he cannot convey it without the consent of the Mortgagee (*i.e.* the Lender).

The entries in a Company's books when money is borrowed on mortgage will be to debit Cash and credit the Mortgagee. A note should be made in the Ledger Account of the asset charged under the Mortgage. The proper entry must be made in the Register of Mortgages. In the Balance Sheet the loan should be shown separately on the liability side of the Balance Sheet as Loan on Mortgage, and a note should be made under the asset charged. Sometimes the method is adopted of deducting the amount of the Mortgage from the asset, and only extending the

surplus on the asset side of the Balance Sheet; but this is not recommended, as it has the effect of reducing the totals of the assets and liabilities respectively.

(b) Definition of Debenture.

A Debenture is a written acknowledgment of a debt by a Company under seal, usually containing provisions as to payment of interest and repayment of principal. It may be either a Simple or Naked Debenture carrying no charge, or a Mortgage Debenture carrying either a fixed or floating charge on some or all of the assets of the Company, either including or not, as the case may be, the uncalled Capital of the Company.

Under § 93 of the Companies (Consolidation) Act, 1908, all mortgages and charges affecting the property of a Company, as defined in that section, must be registered within 21 days after the date of creation with the Registrar of Joint Stock Companies, otherwise they will be void against the Liquidator and any creditor of the Company, so far as the security comprised by the charge is concerned. If so rendered void, the principal moneys will immediately become repayable.

Debentures will either take the form of bonds to bearer, or they may be registered in the names of the holders, transmission being by transfer. In such a case a *Debenture Ledger* must be kept, similar in form to the Share Ledger previously described, in order to record the necessary particulars. Debenture stock may also be issued, the distinction between this and Registered Bonds being similar to the distinction between Stock and Shares mentioned earlier in this Chapter.

On the issue of a series of Debentures by a Company it is usual for two or more persons to be appointed as Trustees for the Debenture Holders, for the purpose of looking after their interests, and taking any action that may be necessary.

Entries in the books of a Company on the issue of Debentures will be similar to those on the occasion of an issue of Shares, sundry Debenture Holders being debited with the various instalments due, and Debenture Account credited. The proper entry must also be made

in the Register of Mortgages kept by the Company, a form of which is printed in § 4 of this Chapter.

(c) Debentures Issued at a Premium.

When Debentures are issued at a premium, the premium may be dealt with in various ways. Unless the Articles prevent, the premium can be treated as Revenue Profit, and distributed in dividend, but it is not wise to do this. It may either be put to Reserve Account, or be made to form the nucleus of a Debenture Redemption Fund. It may also be used to write off fictitious assets, or to write down fixed assets. It is usual to charge the expenses of issuing the Debentures against the premium received.

In the Balance Sheet the Debentures will show as a liability at their nominal value.

(d) Debentures Issued at a Discount.

Unlike Share Capital, Debenture Capital can be issued at a Discount, and the discount can be regarded as a lump sum allowed to the lenders at the time of their taking up the Debentures, in consideration of a lower rate of interest being payable than would have been the case had the Debentures been issued at par. The financial position of the Company and the state of the money market at the date of issue are important factors in determining the price of issue.

The Debentures will stand in the Balance Sheet on the liability side at their nominal value, and the discount will be written off over a period of years, the balance remaining at any date being carried forward in the Balance Sheet, and shown separately as such under § 90 of the Companies (Consolidation) Act, 1908. As this discount does not represent any available asset, it is very advisable that it should be written off as soon as possible. It cannot be said, however, to be incorrect to write off the discount over the period for which the Debentures run, and in that case, when no sinking Fund is formed for the purpose of repaying the Debentures and the Debentures are repayable at the end of a given

period, an equal amount of the discount should be written off each year. If the Debentures are repayable by annual drawings without the provision of a Sinking Fund, the discount should be written off in relative proportion to the amount of Debentures outstanding, in order that the periods enjoying the use of the greater portion of the Debentures should be charged with the greater portion of the discount.

ILLUSTRATION—

A Company issues, on 1st January, 1917, thirty Debentures of £100 each at 90, repayable by instalments of £1,000 at the end of the first, second and third years respectively. Show the Discount Account, assuming the Discount to be written off over the period proportionately.

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1917. Jan. 1	To Debenture Account ..	300 0 0	1917. Dec. 31	By P. & L. Account—three-sixths of £300 ..	150 0 0
				By Balance	150 0 0
		£300 0 0			£300 0 0
		£ s. d.			£ s. d.
1918. Jan. 1	To Balance	150 0 0	1918. Dec. 31	By P. & L. Account—two-sixths of £300 ..	100 0 0
				„ Balance	50 0 0
		£150 0 0			£150 0 0
		£ s. d.			£ s. d.
1919. Jan. 1	To Balance	50 0 0	1919. Dec. 31	By P. & L. Account—one-sixth of £300 ..	50 0 0
		£50 0 0			£50 0 0

Note to Illustration.

In the above it will be seen that the amount of discount written off in the first year is three times the amount written off in the last, since the amount of Debentures outstanding during the first year is three times the amount outstanding during the last. The way to arrive at the proper calculation is to take the period of years, and add up the various numbers comprising it. In the above Illustration the period is three years, and the numbers added together will be 3 plus 2 plus 1 = 6. In the first year, therefore, three-sixths of the discount must be written off, in the second year two-sixths, and in the third year one-sixth.

Where the redemption of the nominal amount of the Debentures repayable is provided for by charges against Profit and Loss, such charge will include the provision for discount, and consequently the same can be written off against the credit balance of the Redemption account.

(e) Debentures Repayable at a Premium.

These Debentures will stand in the Balance Sheet as a liability at their nominal amount, with a note of the amount at which they are repayable, any discount or premium on issue being treated in one of the ways described above.

If a Sinking Fund is formed to provide for repayment, the same should include provision for the payment of the premium on redemption. If no Sinking Fund is formed, the premium should be provided for out of profits over the period of the Debentures.

(f) Redemption of Debentures.

Debentures may be irredeemable, but this is infrequent in the case of a Limited Company. It is more usual to find irredeemable Debentures or Debenture Stock in the case of Companies formed under special Act of Parliament.

Debentures may either be redeemable at the end of a given period or by annual drawings. The Trust Deed will contain provisions for redemption, and will also usually stipulate for the provision of a Sinking Fund being formed out of profits for the purpose of repayment. An illustration of the entries in the Company's books in a case of this sort is given in Chapter IV., § 8.

Another method which has recently come into considerable favour is for the Company to take out an endowment policy with an Insurance Company for the amount of the Debentures. In such a case the procedure in the Company's books will be on similar lines to that described in Chapter IV., § 3 (*e*), dealing with an endowment policy taken out for the purpose of replacing a lease.

Under § 104 of the Companies (Consolidation) Act, 1908, it is now legal for a Company to redeem its Debentures either by purchase or otherwise, and to keep them alive for re-issue, unless the Articles of the Company or the conditions of issue expressly otherwise provide, or unless the Debentures have been redeemed in pursuance of any obligation on the Company so to do.

(g) Debentures issued as Collateral Security for a Loan.

It is a common practice for Companies to issue their own Debentures as collateral security against a loan or overdraft from a Bank or other parties. The Companies (Consolidation) Act, 1908, § 104, sub-section (3) expressly refers to this procedure, and provides that such Debentures

shall not be deemed to have been redeemed by reason only of the account of the Company having ceased to be in debit whilst the Debentures remained so deposited.

The term collateral security means a security which can be realised by the party holding it, in the event of the original loan in respect of which the security was given not being repaid at the proper time, or in any other specified cases, according to the agreement between the parties. As soon as the loan is repaid the collateral security is automatically released.

When Debentures are issued in this manner they should be shown in short in the Balance Sheet, and stated as having been issued as collateral security. The loan against which they are issued will be extended as a liability in the usual way.

It is preferred by some to record the transaction by crediting the Debenture Account with these Debentures, and debiting a Debenture Suspense Account with the same amount, the latter item showing on the asset side of the Balance Sheet. When the Debentures are released the entry is written back, and consequently will disappear from both sides of the Balance Sheet. There does not appear to be any particular advantage to be obtained in adopting this method, as the whole of the facts are clearly disclosed in the Balance Sheet by the first method of treatment described above.

§ 10.—The Purchase of a Private Business by a Limited Company.

In many cases Private Businesses are turned into Limited Liability Companies for family reasons, particularly to facilitate arrangements on the death of one of the Proprietors who may be possessed of a large sum of capital in the business, the withdrawal of which by his Executors might have serious effects on the financial position. This difficulty can be entirely overcome by converting the business into a Private Limited Company, the former partners receiving in exchange for their Capital and Goodwill, Cash, Shares, or Debentures, as the case may

be. The shares of a Limited Company being transmissible by will, and the death of any member not affecting the constitution of a Limited Company, no inconvenience will arise in the event of such deaths taking place.

In addition to private arrangements of this nature, a Public Company is very often formed for the purpose of acquiring a Private Business, and in this case the usual procedure is for a Promoter or a Syndicate to purchase the business from the original owners, and resell to the Company at a profit.

In either case the transactions to be recorded from the Company's point of view are the same. It by no means follows, however, that the assets acquired by the Company will be taken at the same valuation as that at which they stood in the books of the firm. In cases where a public issue is made, there is usually a revaluation of all the fixed assets, and frequently the Vendors guarantee the Book Debts to be good. In many cases it is usual for the Company to take over the trade liabilities as part of the purchase consideration.

In addition, however, to the purchase price of the actual assets acquired, there is usually a further sum payable in respect of Goodwill, which is generally more or less based on so many years' average profits. All Companies making a public issue must specifically state in their prospectus the amount of the purchase consideration allotted to Goodwill; but from the book-keeping point of view it should be remembered that the Goodwill will be represented by the excess of the purchase consideration payable to the Vendor over the value of the actual assets acquired, less liabilities taken over (if any).

(a) Entries in the Books.

The Journal Entries in the Company's books necessary to record transactions of this nature will be as follows :—

(1) Debit accounts with the various assets acquired, and Goodwill, and credit the Vendor and any liabilities that may be taken over by the Company.

(2) Debit the Vendor, and credit Share Capital Account, Debentures, Cash, &c., for payment of the purchase consideration.

ILLUSTRATION –

A Company takes over the following assets and liabilities of a private business :—

	£ s. d.	£ s. d.
Leasehold Property ..	7,000 0 0	
Plant and Machinery	3,000 0 0	
Stock-in-Trade	4,600 0 0	
Sundry Debtors	3,000 0 0	
Cash	1,500 0 0	
		19,100 0 0
Less Trade Creditors		2,100 0 0
		£17,000 0 0

The purchase consideration is £20,000, and is payable to the Vendor as follows :—£10,000 in Ordinary Shares of £5 each fully paid, £5,000 in 5 per cent. Preference Shares of £5 each fully paid, and the balance in cash. Show the opening Journal Entries in the books of the Company.

JOURNAL.

		£ s. d.	£ s. d.
Sundries.	*Dr.*		
To Sundries—			
Leasehold Property ..		7,000 0 0	
Plant and Machinery		3,000 0 0	
Stock-in-Trade		4,600 0 0	
Sundry Debtors		3,000 0 0	
Cash		1,500 0 0	
Goodwill		3,000 0 0	
Sundry Creditors			2,100 0 0
Vendor			20,000 0 0
Being sundry assets and liabilities taken over as per contract dated			
		£22,100 0 0	£22,100 0 0
		£ s. d.	£ s. d.
Vendor	*Dr.*	20,000 0 0	
To Sundries—			
Ordinary Share Capital—2,000 Shares of £5 each fully paid ..			10,000 0 0
Preference Share Capital—1,000 Shares of £5 each fully paid ..			5,000 0 0
Cash			5,000 0 0
Being discharge of purchase consideration as per contract dated			
		£20,000 0 0	£20,000 0 0

Note to Illustration.

In making the first Journal Entry the figure of Goodwill will be ascertained by taking the difference between the assets, less liabilities taken over, and the purchase consideration payable to the Vendor.

The following illustration shows the effect of the conversion of a Private Firm into a Limited Company on the books of the firm, and also the entries in the books of the Company :—

ILLUSTRATION—

The X. Company, Limited, was formed to purchase the business of A. and B., who share profits, two-thirds and one-third respectively, and whose Balance Sheet at 30th June, 1920, was as follows :—

BALANCE SHEET.

Dr. A. AND B. *Cr.*

		£ s. d.			£ s. d.
To Creditors		2,700 0 0	By Goodwill		1,000 0 0
„ Bills Payable		900 0 0	„ Freehold Property		5,000 0 0
„ Loan Account		400 0 0	„ Plant and Machinery		2,500 0 0
„ Capitals :—			„ Stock		3,000 0 0
A.	£8,000		„ Debtors	£3,100	
B.	5,000		*Less* Reserve	200	
		13,000 0 0			2,900 0 0
			„ Bills Receivable		800 0 0
			„ Investments		600 0 0
			„ Cash		1,200 0 0
		£17,000 0 0			£17,000 0 0

The Company takes over the assets at book value, with the exception of the Freehold Property, which is taken over at £6,000. The investments are retained by the firm, and sold by them for £450. They also discharge the loan of £400, but the Company takes over the remaining liabilities.

The purchase consideration for the net assets taken over is fixed at £18,950, payable as follows :—£9,500 5 per Cent. Debentures, £7,600 fully paid Ordinary Shares of £1 each, and the balance in cash. A. and B. agree to divide the assets forming the purchase consideration in proportion to the balances standing to the credit of their respective Capital Accounts, after the adjustments rendered necessary by the sale of the business and investments have been completed.

Show the Ledger Accounts closing the firm's books, and the Journal Entries opening the Company's books.

FIRM'S BOOKS.

Dr. REALISATION ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Freehold Property	5,000 0 0	By Creditors	2,700 0 0
„ Plant and Machinery	2,500 0 0	„ Bills Payable	900 0 0
„ Goodwill	1,000 0 0	„ Reserve for Bad Debts	200 0 0
„ Stock	3,000 0 0	„ Purchasing Co.	18,950 0 0
„ Debtors	3,100 0 0		
„ Bills Receivable	800 0 0		
„ Cash	1,200 0 0		
„ Balance, being profit on realisation	6,150 0 0		
	£22,750 0 0		£22,750 0 0
	£ s. d.		£ s. d.
To Capital Accounts :—		By Balance	6,150 0 0
A. two-thirds of £6,150	4,100 0 0		
B. one-third „ „	2,050 0 0		
	£6,150 0 0		£6,150 0 0

Dr. PURCHASING COMPANY'S ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account	18,950 0 0	By Debentures	9,500 0 0
		„ Ordinary Shares	7,600 0 0
		„ Cash	1,850 0 0
	£18,950 0 0		£18,950 0 0

Dr. DEBENTURES. *Cr.*

	£ s. d.		£ s. d.
To Purchasing Co.	9,500 0 0	By A. Capital Account	6,000 0 0
		„ B „ „	3,500 0 0
	£9,500 0 0		£9,500 0 0

Dr. ORDINARY SHARES. *Cr.*

	£ s. d.		£ s. d.
To Purchasing Co.	7,600 0 0	By A. Capital Account	4,800 0 0
		„ B. „ „	2,800 0 0
	£7,600 0 0		£7,600 0 0

Dr. A. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Loss on Investments	100 0 0	By Balance	8,000 0 0
„ Balance	12,000 0 0	„ Profit on Realisation	4,100 0 0
	£12,100 0 0		£12,100 0 0
	£ s. d.		£ s. d.
To Debentures— twelve-nineteenths of £9,500 ..	6,000 0 0	By Balance	12,000 0 0
„ Shares— twelve-nineteenths of £7,600 ..	4,800 0 0		
„ Cash— twelve-nineteenths of £1,900 ..	1,200 0 0		
	£12,000 0 0		£12,000 0 0

Dr. B. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Loss on Investments	50 0 0	By Balance	5,000 0 0
„ Balance	7,000 0 0	„ Profit on Realisation	2,050 0 0
	£7,050 0 0		£7,050 0 0
	£ s. d.		£ s. d.
To Debentures— seven-nineteenths of £9,500 ..	3,500 0 0	By Balance	7,000 0 0
„ Shares— seven-nineteenths of £7,600 ..	2,800 0 0		
„ Cash — seven-nineteenths of £1,900 ..	700 0 0		
	£7,000 0 0		£7.000 0 0

Dr. CASH BOOK. *Cr.*

	£ s. d.		£ s. d.
To Purchasing Co.	1,850 0 0	By Loan Account	400 0 0
„ Investments	450 0 0	„ Balance	1,900 0 0
	£2,300 0 0		£2,300 0 0
	£ s. d.		£ s. d.
To Balance..	1,900 0 0	By A. Capital Account	1,200 0 0
		„ B. „ „	700 0 0
	£1,900 0 0		£1,900 0 0

Dr. INVESTMENTS. *Cr.*

	£ s. d.		£ s. d.
To Balance..	600 0 0	By Cash	450 0 0
		„ Balance, being loss	150 0 0
	£600 0 0		£600 0 0
	£ s. d.		£ s. d.
To Balance..	150 0 0	By Capital Accounts—	
		A. two-thirds of £150	100 0 0
		B. one-third of £150	50 0 0
	£150 0 0		£150 0 0

Dr. LOAN ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Cash	400 0 0	By Balance	400 0 0

NEW COMPANY'S BOOKS.

JOURNAL.

		£ s. d.	£ s. d.
Sundries.	*Dr.*		
To Sundries—			
Freehold Property		6,000 0 0	
Plant and Machinery		2,500 0 0	
Stock		3,000 0 0	
Debtors		3,100 0 0	
Bills Receivable		800 0 0	
Cash		1 200 0 0	
Goodwill		6,150 0 0	
Creditors			2,700 0 0
Bills Payable			900 0 0
Reserve for Bad Debts			200 0 0
Vendor			18,950 0 0
		£22,750 0 0	£22,750 0 0
Being sundry assets and liabilities taken over as per contract dated			

NOTE.—The figure of Goodwill is ascertained by taking the difference between the assets, less liabilities taken over, and the purchase consideration payable to the Vendor.

		£ s. d.	£ s. d.
Vendor.	*Dr.*	18,950 0 0	
To Sundries—			
Ordinary Share Capital			7,600 0 0
Debentures			9,500 0 0
Cash			1,850 0 0
		£18,950 0 0	£18,950 0 0
Being 7,600 Ordinary Shares of £1 each, and 9,500 5 % Debentures issued fully paid, and cash paid in settlement of purchase consideration as per contract dated			

Note to Illustration.

The figure of Goodwill can be proved as follows :—

The Goodwill is the difference between the book value of the net assets taken over as shown by the books of the firm (subject to any revaluation of the assets by the new Company) and the purchase consideration.

	£	s.	d.
Thus the book value of the assets taken over was	16,400	0	0
Less book value of liabilities taken over	3,600	0	0
Book value of net assets taken over	£12,800	0	0
The purchase consideration was	18,950	0	0
Less book value of net assets as above..	12,800	0	0
Goodwill subject to adjustment	6,150	0	0
Add original value of Goodwill taken over and included in book value of net assets	1,000	0	0
	7,150	0	0
Less adjusted difference in the revaluation of freehold premises ..	1,000	0	0
Goodwill as shown in new Company's books	£6,150	0	0

(b) Apportionment of Profit prior to Incorporation.

Frequently a Company takes over a business as and from a date prior to the incorporation of the Company itself. In such an event any profits earned prior to the date of incorporation to which the Company may be entitled cannot be regarded as profits available for dividend, but are of a capital nature, since the Company cannot earn profits before it comes into existence. When the Vendor is not entitled to take such profits himself, he is usually entitled to interest on the purchase consideration from the date when the business was taken over, to the date when the purchase consideration is discharged. If that is so, the interest payable to the Vendor for the period from the date of taking the business over till the date of incorporation can be charged against the profits earned during that period, any interest payable in respect of any period after the date of incorporation being charged against the Profit and Loss Account. The remaining balance of profits earned prior to incorporation (if any) should either be written off the Goodwill, or, if there be no Goodwill, some other fixed asset, or carried forward as a capital reserve not available for revenue purposes.

If stock is not taken at the date of incorporation, and the exact profits thereto cannot consequently be ascertained, it is usual to arrive

at the proportion of profits applicable to the period prior to incorporation, either by apportioning the whole profits earned according to the periods themselves, or in proportion to the turnover of those periods, the latter being, strictly speaking, the more correct method.

The date of the division, in these cases, should be the date of incorporation, if that is the date of the Contract, or the date of the Contract itself if subsequent to the date of incorporation, and not the date of the certificate entitling the Company to commence business ; since once that certificate has been issued, the Company's power of legally carrying on business dates back to the date of incorporation (C.C. Act, 1908, § 87 (3)).

§ 11.—Forfeited Shares.

The Articles will usually give power to the Directors to forfeit shares in respect of which calls are unpaid and overdue, proper notice having been given to the Shareholder that unless he pays up his calls his shares will be forfeited. The revised Table A also gives power to forfeit for non-payment of premium.

When such forfeiture takes place the Capital Account should be debited with the amount called up in respect of the shares, and Forfeited Shares Account credited. The calls in arrear in respect of these shares will have shown as a debit balance, either to the debit of the Call Account or the Sundry Shareholders' Account. These should be written off against the Forfeited Shares Account. The credit balance of this account will then represent the actual cash received in respect of the shares forfeited.

Until these shares are re-issued this balance should stand as a separate item in the Balance Sheet, as a liability under the heading of Forfeited Shares Account.

Forfeited Shares can be re-issued as fully paid at any price, as long as that price, plus the cash originally received before forfeiture, together amount to at least the par value of the shares in question. If in such a case after the proper adjustments have been made there still remains a credit balance on the Forfeited Shares Account, this can be transferred to General Reserve, or even to Profit and Loss Account (unless the Articles forbid), although this course is not advisable.

ILLUSTRATION—

A Company has an issued Capital of £20,000 in shares of £1 each fully paid, with the exception of 200 shares 10s. paid. The latter are forfeited for non-payment of calls, and subsequently re-issued fully paid at the price of 15s. per share. Show the entries in the Company's Journal and Ledger recording these transactions.

JOURNAL.

	£ s. d.	£ s. d.
Share Capital Account .. .. Dr.	200 0 0	
To Forfeited Shares Account		200 0 0
Being 200 shares of £1 each forfeited for non-payment of calls as per minute dated		
Forfeited Shares Account .. .. Dr.	100 0 0	
To Sundry Shareholders		100 0 0
Being calls in arrear 10s. per share on 200 shares forfeited now transferred.		
Sundries. Dr.		
To Share Capital Account		200 0 0
Sundry Shareholders	150 0 0	
Forfeited Shares Account	50 0 0	
Being re-issue of 200 forfeited shares of £1 each as fully paid at 15s. per share.		

LEDGER.

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Forfeited Shares Account	200 0 0	By Balance	20,000 0 0
„ Balance	20,000 0 0	„ Sundries	200 0 0
	£20,200 0 0		20,200 0 0
		By Balance	£20,000 0 0

Dr. FORFEITED SHARES ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Sundry Shareholders	100 0 0	By Share Capital Account	200 0 0
„ Share Capital Account	50 0 0		
„ Balance	50 0 0		
	£200 0 0		£200 0 0
		By Balance	£50 0 0

Dr. SUNDRY SHAREHOLDERS ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance	100 0 0	By Forfeited Shares Account	100 0
„ Share Capital Account	150 0 0	„ Cash	150 0 0
	£250 0 0		£250 0 0

Note to Illustration.

As the shares in question are now re-issued, the balance of the Forfeited Shares Account, after transferring 5s. per share (the amount necessary to make the price of re-issue up to par), is an absolute profit, and may either be carried forward in the Balance Sheet or transferred to Reserve Account, or even to Profit and Loss, unless the Articles forbid; but this last course is not to be recommended.

§ 12.—Bonus Shares.

(a) Issue of Bonus Shares at par.

When a Company has accumulated large profits in the shape of Reserves which it wishes to continue to utilize in the business as working capital, but at the same time it is considered desirable to afford the present Shareholders some advantage in respect thereof, it is usual to capitalise such reserves by issuing Bonus Shares as fully paid up to the Shareholders in respect of such profits or some part thereof.

No cash passes between the Company and its Shareholders in respect of these transactions, the Shareholders' resolution to pay the bonus being so framed as to give the Company authority to apply the same in the requisite manner.

ILLUSTRATION—

A Company having a Reserve of £25,000 and a paid-up Capital of £100,000 in £1 shares resolves to pay a bonus of 20 per cent. out of its Reserve by the issue of one share fully paid for each five shares held. Show the Journal Entries recording the transaction.

JOURNAL.

	£ s. d.	£ s. d.
Reserve Account .. .. *Dr.*	20,000 0 0	
To Bonus Account		20,000 0 0
Being Bonus of 20 % payable out of the Reserve Account in fully paid shares as per Resolution of Shareholders dated		
	£ s. d.	£ s. d.
Bonus Account .. .. *Dr.*	20,000 0 0	
To Share Capital Account		20,000 0 0
Being issue of 20,000 shares of £1 each fully paid in satisfaction of Bonus at the rate of one share for every five held.		

(b) Issue of Bonus Shares at a Premium.

When the shares of the Company stand at a high premium it is not good financial policy to issue such Bonus Shares at par, since, although this may be of very great advantage to present Shareholders, it may operate very unfavourably for the Company and future Shareholders. The reason for this is that the new shares in respect of which the Company has accumulated profits to the extent of the par value will rank for dividend in the same manner as the original shares, which had the advantage of the use as additional working capital of the very reserves now being distributed as Bonus. These having now disappeared by the issue of the new shares, it may be difficult for the Company to continue to pay on the total issue the same rate of dividend as formerly.

The proper method when the market quotation is at a premium is to issue the Bonus Shares at a fair average premium, when the proportion of the Bonus in respect of such premium will remain in the business, and will not rank for future dividends.

ILLUSTRATION—

A Company having a Capital of £50,000 in shares of £1 each fully paid, standing at £4 10s. 0d. per share, distributes a Bonus out of the Reserve Account at the rate of 100 per cent., payable in fully paid shares at a premium of £3 per share.

Show the Journal Entries necessary to record these transactions.

JOURNAL.

	£ s. d.	£ s. d.
Reserve Account .. .. *Dr.*	50,000 0 0	
To Bonus Account		50,000 0 0
Being Bonus at the rate of 100% on 50,000 shares of £1 each as per Resolution dated		
	£ s. d.	£ s. d.
Bonus Account .. .. *Dr.*	50,000 0 0	
To Sundries—		
Share Capital Account		12,500 0 0
Premium on Shares Account		37,500 0 0
Being payment of Bonus by the issue of 12,500 shares of £1 each fully paid at a premium of £3 per share, as per Resolution dated	£50,000 0 0	£50,000 0 0

(c) Application of Bonus to Payment of Calls.

Another method when the existing shares are only partly called up is to apply the bonus to the payment of a call on the shares.

ILLUSTRATION—

A Company having a Nominal and Issued Capital of £100,000 in 10,000 shares of £10 each, £7 10s. 0d. per share called up, declares a bonus out of the Reserve Account at the rate of 33⅓ per cent. on the paid-up Capital to be applied for the purpose of making the shares fully paid.

Show the Journal Entries necessary to record these transactions.

JOURNAL.

	£ s. d.	£ s. d.
Call Account .. .. *Dr.*	25,000 0 0	
To Share Capital Account		25,000 0 0
Being final call of £2 10s. per share on 10,000 shares as per Resolution of the Board dated		
	£ s. d.	£ s. d.
Reserve Account .. .. *Dr.*	25,000 0 0	
To Bonus Account		25,000 0 0
Being Bonus of £2 10s. per share on 10,000 shares payable out of the Reserve Account as per Resolution of Shareholders dated		
	£ s. d.	£ s. d.
Bonus Account .. .. *Dr.*	25,000 0 0	
To Call Account		25,000 0 0
Being application of Bonus of £2 10s. per share on 10,000 shares to payment of Call as per Resolution dated		

§ 13.—Payment of Interest out of Capital.

§ 91 of the Companies (Consolidation) Act, 1908, authorizes the payment of Interest out of Capital in certain cases as follows :—

Where any shares of a Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings, or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of such Share Capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned, and may charge the same to capital as part of the cost of construction of the work, building, or plant.

Provided that :—

(1) No such payment shall be made unless the same is authorized by the Company's Articles of Association, or by special resolution of the Company.

(2) No such payment, whether authorized by the Articles of Association or by special resolution, shall be made without the previous sanction of the Board of Trade.

(3) Before sanctioning any such payment the Board of Trade may, at the expense of the Company, appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the Company to give security for payment of the costs of the inquiry.

(4) The payment shall be made only for such period as may be determined by the Board of Trade ; and such period shall in no case extend beyond the close of the next half-year after the half-year during which the works or buildings have been actually completed or the plant provided.

(5) The rate of interest shall in no case exceed four per cent. per annum, or such lower rate as may for the time being be prescribed by Order in Council.

(6) The payment of such interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(7) The accounts of the Company shall show the capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

§ 14.—The Preparation of a Company's Books and Accounts for Audit.

Proper arrangements should always be made to facilitate as much as possible the work of the Auditor, and enable him to examine the books and accounts with the least amount of inconvenience to himself and to the Company's staff.

First and foremost a proper system of accounting must be in force. The books must be balanced, since it is not the duty of an Auditor to balance the same, nor can he be called upon to do so, unless separately instructed in his capacity as Accountant. All subsidiary books should be cast in ink, and the totals posted to the proper accounts in the Impersonal Ledger. The various Bought and Sold Ledgers should be separately proved by means of Total Accounts, and their balances brought down in ink, or, if it is inconvenient to rule off and bring down such balances, a note of the amount thereof should be made on each Ledger Account in red ink at the side.

The Cash Book should be balanced off, and a record of the reconciliation of the Pass Book entered therein. All vouchers should be numbered consecutively, and the numbers entered in the Cash Book, the vouchers themselves being filed on some proper system, care being taken to see that, in the event of a voucher being missing, a note is inserted in the file, giving a reference to any other evidence available. Bought invoices should be either attached to the statements when filed as vouchers, or they should be numbered and filed consecutively, the corresponding numbers being entered in the Bought Journal.

When the Trial Balance has been obtained, proper provision must be made for Bad Debts, Depreciation, &c., and all other necessary adjustments should be made. The Balance Sheet and Profit and Loss Account can then be drafted, and, after having been passed by the Directors, presented to the Auditor. In many cases it is usual for the Auditor to prepare the accounts himself in his capacity as Accountant.

In the final Accounts, ledger folios should be inserted against each item which refers to a single ledger account, schedules being attached showing folios and details of all items composed of several separate balances taken together. In this manner a full and clear record is obtained of the way in which the various totals, particularly of Balance Sheet items, are arrived at.

§ 15.—The Balance Sheet and Accounts of a Company.

(a) Form of the Accounts.

Remarks have already been made in Chapter I., § 10, referring to the various classes of assets and their grouping in a Balance Sheet. In the case of a Company, the form of the published accounts is of particular importance, since they are usually printed and circulated among the Shareholders and others. Consequently it is desirable that the amount of detail disclosed should not be such as to damage the position of the Company, by affording information to its rivals in trade. As to how much it is necessary to condense the Accounts for this purpose will depend upon the particular circumstances of each case. It is very rare to find a Trading Account published disclosing the turnover; and the Profit and Loss Account will disclose as much or as little detail as the case warrants.

It is most important, however, notwithstanding these considerations, that the accounts as presented to the Shareholders should convey to them a reasonably full and clear view of the Company's position, and no condensation should be permitted that has the effect of making the position of the Company look better than it really is; *e.g.* an overdraft from the bank should not be included among Sundry Creditors, but shown separately; Creditors for Cash Loans should not be mixed with Trade Creditors; further, such mingling of assets of a different nature as Goodwill and Freehold Land, Book Debts and Cash should not be permitted.

In the Balance Sheet the authorized capital and the various classes of shares of which it is composed should be clearly stated, the issued capital being shown in addition.

Under § 113 of the Companies (Consolidation) Act, 1908, the Balance Sheet must be signed by two of the Directors, or, if there is only one, by that Director; and the Auditors' Report must be attached to the Balance Sheet, or a reference thereto inserted at the foot of the Balance Sheet.

The Balance Sheet required to be included in the Annual Summary filed with the Registrar has already been referred to in § 4 (*c*) (11) of this Chapter. It will be particularly noted that the way in which the values of the fixed assets have been arrived at must be stated.

The treatment of Underwriting Commission and Discount on Issue of Debentures in a Company's Balance Sheet, required by § 90 of the Companies (Consolidation) Act, 1908, has also been referred to in § 8 (5) of this Chapter.

ILLUSTRATION—

From the following Trial Balance of the Johnson Engineering Company, Limited, on 31st December, 1919, prepare Trading and Profit and Loss Accounts and Balance Sheet. The Nominal Capital of the Company is £80,000, divided into 4,000 Ordinary Shares of £10 each, and 4,000 6 per Cent. Cumulative Preference Shares of £10 each.

	£ s. d.	£ s. d.
Stock-in-Trade 1st January, 1919	13,300 0 0	
Discounts	600 0 0	
Carriage	1,150 0 0	
Patterns	7,500 0 0	
Rates, Taxes, Gas, Water and Insurance	1,100 0 0	
Patents, Trade Marks, &c.	3,000 0 0	
Materials Purchased	24,650 0 0	
Wages	26,100 0 0	
Coal and Coke	1,260 0 0	
Freehold Land and Buildings	25,000 0 0	
Plant and Machinery	15,000 0 0	
Loose Tools and Utensils	3,000 0 0	
Goodwill	7,500 0 0	
Sundry Debtors	5,320 0 0	
Bills Receivable	2,690 0 0	
Advertising	300 0 0	
Commission	1,350 0 0	
Trade Expenses	1,120 0 0	
Repairs	930 0 0	
Bad Debts	510 0 0	
Cash in Hand	360 0 0	
Debenture Interest, Half-year to 30th June, 1919	200 0 0	
Preference Dividend, Half-year to 30th June, 1919	600 0 0	
Directors' Fees	1,000 0 0	
Bank Interest and Charges	820 0 0	
2,000 Ordinary Shares		20,000 0 0
2,000 Preference Shares		20,000 0 0
4 % Debentures		10,000 0 0
Provincial Bank, Limited—Overdraft		15,140 0 0
Sundry Creditors		3,560 0 0
Bills Payable		1,250 0 0
Sales		72,340 0 0
Rents		730 0 0
Profit and Loss Account—Balance, 1st January, 1919		1,340 0 0
	£144,360 0 0	£144,360 0 0

The Stock at 31st December, 1919, was £14,160. Write off Depreciation—Plant and Machinery 5 per cent., Loose Tools and Utensils 20 per cent., Patterns 10 per cent., Patents, Trade Marks, &c., 10 per cent. Provide 2½ per cent. on the Sundry Debtors for discount and £430 for bad debts.

JOHNSON ENGINEERING COMPANY, LIMITED.

BALANCE SHEET 31ST DECEMBER, 1919.

Dr.

	£ s. d.	£ s. d.
To Authorized Capital—		
4,000 Ordinary Shares of £10 each	40,000 0 0	
4,000 6 % Cumulative Preference Shares of £10 each	40,000 0 0	
		£80,000 0 0
Issued Capital—		
2,000 Ordinary Shares of £10 each fully paid	20,000 0 0	
2,000 6 % Cumulative Preference Shares of £10 each fully paid	20,000 0 0	
		40,000 0 0
4 % Debentures		10,000 0 0
Sundry Creditors—		
Provincial Bank—Overdraft ..	15,140 0 0	
On Open Account ..	3,560 0 0	
Bills Payable	1,250 0 0	
Debenture Interest ..	200 0 0	
		20,150 0 0
Profit and Loss Account—		
Balance brought forward	1,340 0 0	
Net Profit for the year	9,687 15 0	
	11,027 15 0	
Less Preference Dividend for half-year to 30th June, 1919 ..	600 0 0	
		10,427 15 0
		£80,577 15 0

Cr.

		£ s. d.	£ s. d.
By Goodwill			7,500 0 0
Freehold Land and Buildings			25,000 0 0
Plant and Machinery ..		15,000 0 0	
Less Depreciation		750 0 0	
			14,250 0 0
Loose Tools and Utensils ..		3,000 0 0	
Less Depreciation		600 0 0	
			2,400 0 0
Patterns		7,500 0 0	
Less Depreciation		750 0 0	
			6,750 0 0
Patents, Trade Marks, &c.		3,000 0 0	
Less Depreciation		300 0 0	
			2,700 0 0
Stock			14,160 0 0
Sundry Debtors		5,320 0 0	
Less Reserve for Bad Debts	£430 0 0		
Reserve for Discount	122 5 0		
		552 5 0	
			4,767 15 0
Bills Receivable			2,690 0 0
Cash in Hand			360 0 0
			£80,577 15 0

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 1919.

Dr.

		£ s. d.
To Stock 1st January, 1919		13,300 0 0
,, Materials Purchased		24,650 0 0
,, Wages		26,100 0 0
,, Coal and Coke		1,260 0 0
,, Carriage		1,150 0 0
,, Balance, being Gross Profit carried down		20,040 0 0
		£86,500 0 0
To Rates, Taxes, Gas, Water and Insurance		1,100 0 0
,, Advertising		300 0 0
,, Commission		1,350 0 0
,, Trade Expenses		1,120 0 0
,, Repairs		930 0 0
,, Bank Interest and Charges		820 0 0
,, Discount (£600 + £122 5s.)		722 5 0
,, Bad Debts (£510 + £430)		940 0 0
,, Debenture Interest		400 0 0
,, Depreciation :— ..		
Plant and Machinery	£750 0 0	
Loose Tools and Utensils	600 0 0	
Patterns	750 0 0	
Patents, Trade Marks, &c.	300 0 0	
		2,400 0 0
,, Directors' Fees		1,000 0 0
,, Balance, being net Profit carried down		9,687 15 0
		£20,770 0 0
To Preference Dividend for half-year to 30th June, 1919		600 0 0
,, Balance as per Balance Sheet ..		10,427 15 0
		£11,027 15 0

Cr.

	£ s. d.
By Sales	72,340 0 0
,, Stock 31st December, 1919 ..	14,160 0 0
	£86,500 0 0
By Gross Profit brought down ..	20,040 0 0
,, Rents	730 0 0
	£20,770 0 0
By Balance brought forward from last year	1,340 0 0
,, Net Profit brought down .. —	9,687 15 0
	£11,027 15 0

Note to Illustration.

The provision for discount should be calculated on the figure for Sundry Debtors, viz., £5,320 less £430 the amount reserved by way of Bad Debts.

In the case of Companies such as Mines, if a Balance Sheet is required before the Company has reached a revenue-earning stage, it is not customary to show a Profit and Loss Account, but to carry forward all expenditure in the Balance Sheet.

ILLUSTRATION—

The following are the balances on the books of the X. Mining Company, Limited, at 31st December, 1919, the Company not having at that date reached a revenue-earning stage. Draw up Balance Sheet.

	£	s.	d.
Authorized Share Capital—150,000 Shares of £1 each	150,000	0	0
Issued Share Capital—120,000 Shares of £1 each, 15s. called up	90,000	0	0
Calls in arrear on 200 Shares	100	0	0
Calls paid in advance	400	0	0
Sundry Creditors	800	0	0
Mine Property Account	73,305	0	0
Preliminary and Formation Expenses	1,500	0	0
Mine Development Account	4,000	0	0
Mine Buildings	2,500	0	0
Machinery and Plant	1,100	0	0
General Stores—Stock on Hand	550	0	0
General Charges at Mine	1,600	0	0
Incidental Receipts at Mine	60	0	0
General Charges in London	1,400	0	0
Transfer Fees	20	0	0
Sundry Debtors	150	0	0
Cash at Banks	5,000	0	0
Cash in Hand	75	0	0

The shares in respect of which there are calls in arrear have been forfeited

THE X. MINING COMPANY, LIMITED.

Dr. BALANCE SHEET 31st December, 1919. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Authorized Share Capital—150,000 Shares of £1 each		150,000 0 0	By Mine Property		73,305 0 0
			„ Mine Development a/c		4,000 0 0
			„ Mine Buildings		2,500 0 0
„ Issued Share Capital—120,000 Shares of £1 each, 15s. per share called up	90,000 0 0		„ Machinery and Plant		1,100 0 0
Less 200 shares forfeited	150 0 0		„ General Stores—Stock on hand		550 0 0
119,800 Shares	89,850 0 0		„ Preliminary and Formation Expenses		1,500 0 0
Add Calls paid in advance	400 0 0		„ General Charges at Mine	1,600 0 0	
		90,250 0 0	*Less* Incidental Receipts	60 0 0	1,540 0 0
„ Forfeited Shares Account		50 0 0	„ General Charges in London	1,400 0 0	
„ Sundry Creditors		800 0 0	*Less* Transfer Fees	20 0 0	1,380 0 0
			„ Sundry Debtors		150 0 0
			„ Cash—At Banks	5,000 0 0	
			In Hand	75 0 0	5,075 0 0
		£91,100 0 0			£91,100 0 0

Note.—In practice it would be advisable to set out the General Charges in London and at the mine in detail.

(b) Dividends.

A Limited Company having accumulated profits, distributes such profits at the discretion of the Directors amongst the members of the Company in the form of Dividends.

A Dividend is the amount distributable to the Shareholders, who receive the proportionate part to which they are entitled in proportion to their holdings, having due regard to the regulations of the Company.

A Dividend is not due to Shareholders until declared, so that Preference Dividends though usually payable at fixed dates are not recoverable against the Company before declaration.

The usual procedure in important businesses is to transfer the amount payable in respect of any Dividend declared to a special Dividend Bank Account, against which the Dividend Warrants are drawn. In the books of Account the Dividend will be dealt with in total, the details being obtainable from a Dividends book compiled for each occasion a Dividend is payable.

The following illustration gives the entries necessary in the books of Account.

ILLUSTRATION—

The paid up capital of the X. Company, Limited, is as follows :—

5% Preference 50,000 Shares of £1 each fully paid.
Ordinary 20,000 „ £1 „ „

A Dividend of 5 per cent. per annum was declared on the 10th July, 1919, in respect of the half-year to 30th June, 1919, and on 28th January, 1920, a similar Dividend in respect of the half-year to 31st December, 1919, was also declared, together with a Dividend of 10 per cent., free of Income Tax, for the year 1919 on the Ordinary Shares. Give the Journal entries recording the foregoing. Income Tax 6s. in the £.

JOURNAL.

			£ s. d.	£ s. d.
1919. July 10	Preference Dividend Account ... ... *Dr.*		1,250 0 0	
	To Sundries—			
	Preference Shareholders			875 0 0
	Income Tax			375 0 0
	Dividend at 5% per annum on 50,000 Preference Shares, half-year to 30th June, 1919, as per Minute dated...............			
1920. Jan. 28	Preference Dividend Account ... ... *Dr.*		1,250 0 0	
	To Sundries—			
	Preference Shareholders			875 0 0
	Income Tax			375 0 0
	Dividend at 5% per annum on 50,000 Preference Shares, half-year to 31st December, 1919, as per Minute dated..........			
	Ordinary Dividend Account		2,000 0 0	
	To Ordinary Shareholders			2,000 0 0
	Dividend at 10%, free of Income Tax, on 20,000 Ordinary Shares for year ended 31st December, 1919, as per Minute dated..................			

Notes to Illustration

Cash paid into the Dividend Bank Account to meet each such Dividend, will be posted in one sum to the Preference Shareholders' Account or Ordinary Shareholders' Account as the case requires, thus closing the Shareholders' Accounts.

Income Tax will be posted to credit of Income Tax Account, thus recouping a portion of the Income Tax paid by the Company, the remainder being borne by the Ordinary Shareholders.

As regards the debit balances on the Dividend Accounts, these will be dealt with as shown in the following section.

Unclaimed Dividends will be readily ascertained from the Dividends Pass Book, and should be treated as a Liability in the Balance Sheet as against which, the balance as per the Dividend Pass Book will appear as an Asset.

(c) Appropriation Account.

The Capital of a Limited Company being fixed and only alterable in accordance with Statute, any disposable surplus must remain on the Profit and Loss Account until dealt with. In order to distinguish the actual profits earned from the available profits the forms are ascertained by means of separate Profit and Loss Accounts for each period, while the latter are shown by the Appropriation Account.

The Appropriation Account is a general Profit and Loss Account to which all profits or losses shown by the periodical Profit and Loss Accounts are transferred, and to which are debited all appropriations of profit such as transfers to Reserves, Dividends, &c

Any balance not specifically appropriated will remain to the credit of the Appropriation Account and is technically known as the "Carry forward."

ILLUSTRATION—

The X. Company, Limited, had at 1st July, 1919, a credit balance brought forward from 1918 on Profit and Loss Appropriation Account of £412 6s. 5d. Profit for the year 1919 was £6,354 8s. 2d. At the General Meeting it was resolved to transfer £2,000 to Reserve, and to pay the Dividends referred to in the previous illustration. Show the Appropriation Account in the Company's Ledger.

Dr. APPROPRIATION ACCOUNT. *Cr.*

1919.		£ s. d.	1919.		£ s. d.
July 10	To Preference Dividend ...	1,250 0 0	July 1	By Balance	412 6 5
Dec. 31	,, Balance	5,516 14 7	Dec. 31	,, Profit and Loss Account	6,354 8 2
		£6,766 14 7			£6,766 14 7
1920.		£ s. d.	1920.		£ s. d.
Jan. 28	To Reserve	2,000 0 0	Jan. 1	By Balance	5,516 14 7
	,, Preference Dividend ...	1,250 0 0			
	,, Ordinary Dividend ...	2,000 0 0			
	,, Balance carried forward...	266 14 7			
		£5,516 14 7			£5,516 14 7
			Jan. 29	By Balance	£266 14 7

NOTE.—The First portion of this Account will appear at the close of the printed Profit and Loss Account for 1919, while the Second part will not be printed till the Accounts for 1920 are published, when it will be followed by another section similar to the First portion above.

(d) Contingent Liabilities.

This phrase implies that there are certain transactions the result of which is not yet known, and which may or may not involve the payment of moneys at some subsequent date.

The most familiar example is in the case of Bills Receivable having been discounted. At the date of the Balance Sheet, if any of these bills are still outstanding, there will be a contingent liability to the extent thereof, since, if the acceptors do not meet them at maturity, the holders will have a right of recourse against the drawer or prior endorsers. Since it is unknown at the date of the Balance Sheet whether the bills will be met in due course or not, a note should be inserted stating that there is a contingent liability in respect of bills under discount, amounting to £ . When it is expected that one or more of the bills will not be met, proper reserve should be made against the anticipated loss.

Other instances of Contingent Liabilities are Uncalled Liability on Shares held, Liabilities under Guarantees, or in respect of outstanding actions, &c. Contingent Liabilities may also exist in respect of contracts for work only partly performed, trade contracts, &c., but it is only usual to note on the face of the Balance Sheet the existence of those Contingent Liabilities which, should they accrue, might involve actual loss to the concern. Other Contingent Liabilities which, when they accrue, will result in the acquisition of an asset of corresponding value, are sometimes omitted ; though a note should be made where the amount involved is of any consequence.

(e) Arrears of Cumulative Preference Share Dividend.

It is considered by some that these arrears are in the nature of a Contingent Liability, which should be stated as such on the Balance Sheet of a Company. Whether this is so or not depends on the Articles of the Company, but as most Articles give power to the Directors to put to reserve before the payment of any dividend, preference or otherwise, the payment of these arrears will be contingent, not only on the fact of profits being earned, but also on the resolution of the Directors to pay them. The latter being optional, destroys the argument that

these arrears are Contingent Liabilities, since the term itself negatives any idea of option in the matter. Moreover, the Balance Sheet is not the Balance Sheet of the Ordinary Shareholders or the Preference Shareholders, but of the Company as a whole, and whether future dividends will be payable to one or another class of Shareholders does not affect the position of the Company at any given time. As, however, the information is of interest to both classes of Shareholders, the existence of any such arrears should be noted on the Balance Sheet, though this certainly cannot be insisted upon.

§ 16.—The Amalgamation of Companies.

The principal point to consider in dealing with cases where a new Company is formed to take over the businesses of two or more Companies, will be the valuation of the assets of each particular Company in relation to the assets of the other or others. It is usual for the new Company to take over the liabilities of the old Companies, and for fully paid shares in the new Company to be issued to Shareholders in the old Companies in proportion to their holdings and the relative value of their shares.

Where accumulated profits, such as a credit balance to Profit and Loss, General Reserve Account, &c., remain undistributed in the books of the old Companies, it is important to note that these are not available for revenue purposes in the case of the new Company, since they will be represented by assets which are actually purchased by the new Company. If the amounts in question are large they should certainly be capitalised, and additional shares in the new Company issued to the Shareholders in the old Companies who may be entitled to such profits.

Where these balances are not sufficiently important they should either be put to a Special Reserve Account, not available for revenue purposes, or be written off the Goodwill, or some of the fixed assets acquired.

ILLUSTRATION—

Two Companies, whose businesses are of a kindred nature, wish to amalgamate, and a new Company is formed to take over their respective Assets and Liabilities. The following are the respective Balance Sheets :—

JONES & JOHNSON, LIMITED.

Dr. BALANCE SHEET 31ST DECEMBER, 1919. *Cr.*

	£ s. d.		£ s. d.
Share Capital—		Goodwill	30,000 0 0
75,000 Shares of £1 each fully paid	75,000 0 0	Freehold Premises	10,000 0 0
Sundry Creditors	3,300 0 0	Plant and Machinery	18,300 0 0
Reserve Account	4,200 0 0	Stock	16,000 0 0
Profit and Loss Account	800 0 0	Sundry Debtors..	7,500 0 0
		Cash	1,500 0 0
	£83,300 0 0		£83,300 0 0

BLACK & SONS, LIMITED.

Dr. BALANCE SHEET 31ST DECEMBER, 1919. *Cr.*

	£ s. d.		£ s. d.
Share Capital—		Goodwill	20,000 0 0
45,500 Shares of £1 each fully paid	45,500 0 0	Plant and Machinery	13,450 0 0
Sundry Creditors	2,000 0 0	Stock	11,550 0 0
Profit and Loss Account	4,500 0 0	Sundry Debtors..	6,000 0 0
		Cash	1,000 0 0
	£52,000 0 0		£52,000 0 0

Assuming the assets in each case to be worth their book value, what would be the best way of carrying out the amalgamation ? Give the Balance Sheet of the new Company.

The book value of the net assets of Jones & Johnson, Limited, is arrived at as follows :

	£ s. d.	£ s. d.
Gross Assets	83,300 0 0	
Less Liabilities	3,300 0 0	
		£80,000 0 0

From the Shareholders' point of view this amount is represented by :—

	£ s. d.	
Share Capital	75,000 0 0	
Reserve Account	4,200 0 0	
Profit and Loss Account	800 0 0	
		£80,000 0 0

In a similar manner the book value of the net assets of Black & Sons, Limited, is £50,000, represented as follows : —

	£ s. d.	
Share Capital	45,500 0 0	
Profit and Loss Account	4,500 0 0	
		£50,000 0 0

It is apparent, therefore, that shares in the new Company should be issued as follows :—

To the Shareholders of Jones & Johnson, Limited, 80,000 shares of £1 each fully paid, being at the rate of 16 new shares for every 15 old ; and

To the Shareholders of Black & Sons, Limited, 50,000 shares of £1 each fully paid, being at the rate of 100 new shares for every 91 old.

Fractions of shares will require to be dealt with. The usual method is to allot to the Liquidator of the Company concerned the number of shares represented by the addition of the fractions. He will realise these shares at the best price possible, and distribute the proceeds to the parties entitled thereto.

The new Balance Sheet will then be as follows :—

Dr. NEW COMPANY'S BALANCE SHEET 31ST DECEMBER, 1919. *Cr.*

	£ s. d.		£ s. d.
Share Capital—		Goodwill	50,000 0 0
130,000 Shares of £1 each fully paid	130,000 0 0	Freehold Premises	10,000 0 0
Sundry Creditors	5,300 0 0	Plant and Machinery	31,750 0 0
		Stock	27,550 0 0
		Sundry Debtors..	13,500 0 0
		Cash	2,500 0 0
	£135,300 0 0		£135,300 0 0

§ 17.—The Absorption of one Limited Company by another.

Where one Limited Company buys up the business of another, a process which has become very frequent of late years for the purpose of reducing establishment charges and management expenses generally, it will be necessary for the Company absorbed to go into voluntary liquidation, and in such a case the Purchasing Company usually takes over the ordinary trade liabilities, debentures either being paid off in cash or exchanged for new debentures in the Purchasing Company.

(a) Journal Entries for Closing the Vendor Company's Books.

These entries will follow on similar lines to those required for the purpose of closing the books of a firm on dissolution, and will be as follows :—

(1) Credit all the accounts representing assets to be sold, and debit a Realisation Account.

(2) If any liabilities are being taken over, debit the Liability Accounts, and credit the Realisation Account.

(3) Debit the Purchasing Company's Account, and credit Realisation Account with the total amount of the purchase consideration.

(4) Credit the Purchasing Company's Account, and debit the proper asset accounts in respect of the items forming the purchase consideration, such as Cash, Shares, &c.

(5) If any expenses are paid by the Vendor Company, credit cash and debit the Realisation Account.

(6) The balance on the Realisation Account will represent profit or loss, which should be transferred to the Shareholders' Account.

(7) Any profit balances, such as the credit balance of Profit and Loss, Reserve Account, &c., should be transferred to the Shareholders' Account, together with the balance of the Capital Account.

(8) Debit the Shareholders' Account with the assets forming the purchase consideration when the distribution takes place, and credit the respective accounts of Cash, Shares in Purchasing Company, &c. This will close the books of the Vendor Company.

(b) Journal Entries for Opening the Purchasing Company's Books.

(1) Debit Accounts for the various assets acquired, and the Goodwill (if any), and credit the Vendor Company and any liabilities that may be taken over. The Goodwill will be the difference between the actual assets acquired, less liabilities, and the purchase consideration payable to the Vendor Company.

(2) Debit the Vendor Company, and credit Share Capital Account, Cash, &c., representing the discharge of the purchase consideration.

(c) Shares issued at a Premium Valuation.

When the Purchasing Company's shares are issued to the Shareholders in the Vendor Company at a premium valuation, this premium should be brought into the books of both Companies, in order that the transaction may be completely recorded. If it is not brought into the Vendor Company's books, the result of the transaction there may show as a loss, when, as a matter of fact, there may have been a large profit ; while if it is not brought into the Purchasing Company's books, the price paid for the assets acquired will appear to be very much less than, as a matter of fact, it really is, and consequently the price actually paid

for Goodwill will be correspondingly diminished. In the Purchasing Company's books the premium on the shares issued to the Vendor Company should be placed first to a Premium on Shares Account. Whether this account should be used for writing down the Goodwill of the business acquired, or carried to General Reserve Account, or otherwise dealt with, will depend upon the circumstances of the case.

(d) Treatment of Revenue Balances.

The accumulated profit balances of the Vendor Company should not be brought into the Purchasing Company's books, since, as mentioned in the preceding section, these are not available for distribution; moreover, they were represented by assets in the Vendor Company's Balance Sheet, which have been purchased by the other Company, and consequently, if the latter brings in these accumulated profits, this treatment will have the effect of proportionately increasing the book value of the Goodwill, and will misrepresent the proper state of affairs. The items should be ignored altogether in the Purchasing Company's books.

ILLUSTRATION—

The Wolverhampton Electric Company, Limited, is absorbed by the United Electric Company, Limited, the consideration being the assumption of the liabilities, the discharge of the debenture debt at a premium of 5 per cent., by the issue of 5 per cent. debentures in the United Company, and a payment in cash of £3 per share, and the exchange of three £1 shares in the United Company, at an agreed value of £1 10s. 0d. per share, for every share in the Wolverhampton Company.

Close off the books of the Wolverhampton Company, giving both Journal Entries and Ledger Accounts, and show the opening Journal Entries in the books of the United Company.

The following is the Balance Sheet of the Wolverhampton Company at the date of Transfer:—

WOLVERHAMPTON ELECTRIC COMPANY, LIMITED.

Dr. BALANCE SHEET 31ST DECEMBER, 1919. *Cr.*

	£	s.	d.		£	s.	d.
Share Capital—				Goodwill	25,000	0	0
60,000 £5 Shares fully paid ..	300,000	0	0	Land and Buildings	76,500	0	0
5 % Debentures	150,000	0	0	Plant and Machinery	220,000	0	0
Sundry Creditors	20,000	0	0	Patents	5,000	0	0
Workmen's Profit-Sharing Fund ..	10,000	0	0	Patterns and Drawings	2,500	0	0
Accident Compensation Fund	5,000	0	0	Work in Progress and Stocks on Hand	106,000	0	0
General Reserve Account	32,000	0	0	Sundry Debtors..	45,000	0	0
Profit and Loss Account	3,000	0	0	Investments on Compensation Fund Account	5,000	0	0
				Cash at Bank and in Hand	35,000	0	0
	£520,000	0	0		£520,000	0	0

WOLVERHAMPTON COMPANY'S JOURNAL.

		£ s. d.	£ s. d.
Realisation Account	Dr.	520,000 0 0	
To Sundry Assets			520,000 0 0
Being sundry assets sold to the United Electric Co. as per Balance Sheet of 31st December, 1919.			
Sundry Liabilities	Dr.		
To Realisation Account			30,000 0 0
Sundry Creditors		20,000 0 0	
Workmen's Profit-Sharing Fund		10,000 0 0	
Being liabilities taken over by United Electric Co.			
Realisation Account	Dr.	7,500 0 0	
To Debenture Account			7,500 0 0
Being Premium of 5% now provided for.			
Purchasing Co. (United Electric Co., Limited)	Dr.	607,500 0 0	
To Realisation Account			607,500 0 0
Being Purchase Price as per Agreement.			
Sundries—	Dr.		
To Purchasing Co.			607,500 0 0
Cash		180,000 0 0	
Shares (United Electric)		270,000 0 0	
180,000 Shares of £1 each, fully paid, at £1 10s. per share			
Debenture Account		157,500 0 0	
5% Debentures exchanged.			
Being discharge of Purchase Consideration.			
Sundries—	Dr.		
To Shareholders' Account			450,000 0 0
Accident Compensation Fund		5,000 0 0	
General Reserve Account		32,000 0 0	
Profit and Loss Account		3,000 0 0	
Realisation Account :—Profit on Transfer		110,000 0 0	
Share Capital Account		300,000 0 0	
Being Balances Transferred.			
Shareholders' Account	Dr.	450,000 0 0	
To Sundries—			
Cash			180,000 0 0
United Electric Shares Account			270,000 0 0
Being 3 Shares of £1 each valued at £1 10s. per share for each of 60,000 Shares. and £3 per share in cash for each of 60,000 Shares distributed to Shareholders.			

WOLVERHAMPTON COMPANY'S LEDGER.

Dr. **REALISATION ACCOUNT.** *Cr.*

	£ s. d.		£ s. d.
Sundry Assets	520,000 0 0	Sundry Liabilities	30,000 0 0
Premium on Debentures	7,500 0 0	United Electric Co., Limited	607,500 0 0
Shareholders' Account, Profit on absorption	110,000 0 0		
	£637,500 0 0		£637,500 0 0

Dr. **SUNDRY LIABILITIES.** *Cr.*

	£ s. d.		£ s. d.
Realisation Account	30,000 0 0	Sundry Creditors	20,000 0 0
		Profit-Sharing Fund	10,000 0 0
	£30,000 0 0		£30,000 0 0

Dr. DEBENTURE ACCOUNT. **Cr.**

	£ s. d.		£ s. d.
United Electric Co., Limited	157,500 0 0	Balance	150,000 0 0
		Realisation Account—Premium ..	7,500 0 0
	£157,500 0 0		£157,500 0 0

Dr. SHAREHOLDERS' ACCOUNT. **Cr.**

	£ s. d.		£ s. d.
Cash	180,000 0 0	Share Capital	300,000 0 0
United Co.'s Shares Account	270,000 0 0	Sundries	150,000 0 0
	£450,000 0 0		£450,000 0 0

Dr. UNITED ELECTRIC SHARES ACCOUNT. **Cr.**

	£ s. d.		£ s. d.
United Electric Co., Limited	270,000 0 0	Shareholders' Account	270,000 0 0

Dr. WORKMEN'S COMPENSATION FUND. **Cr.**

	£ s. d.		£ s. d.
Shareholders' Account	5,000 0 0	Balance	5,000 0 0

Dr. GENERAL RESERVE ACCOUNT. **Cr.**

	£ s. d.		£ s. d.
Shareholders' Account	32,000 0 0	Balance	32,000 0 0

Dr. PROFIT AND LOSS ACCOUNT. **Cr.**

	£ s. d.		£ s. d.
Shareholders' Account	3,000 0 0	Balance	3,000 0 0

Dr. UNITED ELECTRIC COMPANY, LIMITED. **Cr.**

	£ s. d.		£ s. d.
Realisation Account	607,500 0 0	Sundries	607,500 0 0

UNITED COMPANY'S JOURNAL.

	£ s. d.	£ s. d.
Sundries. Dr.		
To Sundries—		
Land and Buildings	76,500 0 0	
Plant and Machinery	220,000 0 0	
Patents	5,000 0 0	
Patterns and Drawings	2,500 0 0	
Work in Progress and Stocks on Hand	106,000 0 0	
Sundry Debtors	45,000 0 0	
Investments	5,000 0 0	
Cash at Bank and in Hand	35,000 0 0	
Goodwill	142,500 0 0	
Wolverhampton Electric Company, Limited		607,500 0 0
Sundry Creditors		20,000 0 0
Workmen's Profit-Sharing Fund		10,000 0 0
Being Sundry Assets and Liabilities taken over as per Purchase Agreement		
	£637,500 0 0	£637,500 0 0
	£ s. d.	£ s. d.
Wolverhampton Electric Company, Limited Dr.	607,500 0 0	
To Sundries:—		
Cash		180,000 0 0
5% Debenture Account		157,500 0 0
Share Capital Account—		
180,000 Shares of £1 each		180,000 0 0
Premium on Shares Account		90,000 0 0
Being discharge of Purchase Consideration, the shares being taken as issued at £1 10s. per share.		
	£607,500 0 0	£607,500 0 0

Notes to Illustration.

(1) Workmen's Profit-Sharing Fund.

This represents accumulations of past profits placed to the credit of those workmen who have not drawn their shares out in cash. Consequently it must be taken into the books of the United Company as a liability.

(2) Accident Compensation Fund.

This fund has been raised by the Wolverhampton Company out of profits, and is represented by specific investments. Since there remains a credit balance on the Fund Account at the date of the sale of the undertaking, it is obvious that the Wolverhampton Company has made a profit to the extent of £5,000 by taking their own risks instead of insuring outside. Therefore, although the United Company takes over the investments representing such insurance profits, it only buys them *qua* investments, and should not bring the Fund Account into its books. In the Vendor Company's books the balance of this Fund Account will be transferred to the Shareholders' Account in common with the other accumulated profit balances.

(3) Goodwill.

The final figure of Goodwill £142,500 showing in the United Company's books, is arrived at by taking the difference between the actual assets acquired and the purchase consideration, plus liabilities taken over.

The amount can be proved as follows :—

	£ s. d.
Goodwill as per Vendor Company's books	25,000 0 0
Profit on absorption ditto	110,000 0 0
Premium on Debentures unrepresented by assets	7,500 0 0
	£142,500 0 0

(4) Premium on Shares.

This has been recorded in the books of both Companies. Had it been omitted, in the Vendor Company's books the profit on absorption would only have shown as £20,000 instead of £110,000, and in the Purchasing Company's books the Goodwill Account would only have stood at £52,500 instead of £142,500.

(e) Treatment where Shares are partly called up.

The following is an illustration of the absorption of one Banking Company by another, where the shares in each Company are only partly called up. In such a case as this, if the shares of the Purchasing Bank are issued at a premium valuation, the premium in respect thereof would be placed immediately to the Reserve Account of the Bank, as this account is of a permanent nature, and is not used for ordinary transactions.

ILLUSTRATION—

A Bank, having a Capital of £1,000,000 in 50,000 shares of £20 each (upon which £3 10s. 0d. per share was paid up), and a reserve of £150,000, and whose shares stood in the market at £12, was taken over by a Bank having a capital of £3,000,000 in 50,000 shares of £60 each (upon which £10 per share was paid up), and a reserve of £400,000, and whose shares stood in the market at £37, on the terms that one share in the Purchasing Company was given for three shares in the Purchased Company.

What are the entries to be made in the Purchasing Company's books to give effect to the arrangement, and how will its Share Capital and Reserve then stand ?

	£	s.	d.
The net assets of the Purchased Bank will be equivalent to the total of the Paid-up Capital	175,000	0	0
And the Reserve	150,000	0	0
	£325,000	0	0

And the Journal Entry in the Purchasing Company's books will therefore be :—

		£ s. d.	£ s. d.
Sundry Net Assets.	*Dr.*	325,000 0 0	
To Sundries—			
Share Capital Account :—			
Being one Share of £60—£10 per Share paid up—issued for every three Shares of 50,000 Shares held in the Purchased Bank = 16,666 Shares £10 paid up ..			166,660 0 0
Cash :—			
Payment in lieu of fraction of Shares			24 13 4
Reserve Account			158,315 6 8
Being excess of Assets acquired over purchase consideration.			
		£325,000 0 0	£325,000 0 0

The Purchasing Company's Share Capital will then be as follows :—66,666 Shares of £60 each, £10 per Share paid up, £666,660, and its Reserve will stand at £558,315 6s. 8d.

The excess of net assets acquired over the par value of the Shares issued in the above Illustration is consequent upon the market value of the Shares issued, and represents the premium valuation thereof.

§ 18.—Reduction of Capital.

The Companies (Consolidation) Act, 1908, § 46, makes provision for the Reduction of Share Capital under certain conditions as follows :—

46.—(1) Subject to confirmation by the Court, a Company limited by shares, if so authorised by its articles, may by special resolution reduce its share capital in any way, and in particular (without prejudice to the generality of the foregoing power) may—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the Company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

(2) A special resolution under this section is in this Act called a resolution for reducing share capital.

Where the proposed reduction of Share Capital involves either diminution of liability in respect of unpaid Share Capital, or the payment to any Shareholder of any paid-up Share Capital, and in any other case if the Court so directs, Creditors are entitled to object, and those so objecting must be either paid off or secured.

In assenting to a scheme, the principal points the Court takes into consideration are the protection of the rights of Creditors, and the equitable adjustment of the loss between the various classes of Shareholders, having regard to their rights both from Dividends and Capital points of view. The arrangement of a scheme acceptable to all parties and to the Court is a matter of much difficulty, and it is not possible here to deal with the subject otherwise than quite generally, since every case must be considered on its own merits.

(a) Writing off Capital unrepresented by available Assets.

The following Illustration shows the entries in a Company's books consequent on a reduction of capital unrepresented by available assets.

ILLUSTRATION—

A Brewery Company's Balance Sheet was as follows :—

CAPITAL AND LIABILITIES.

	£	s.	d.
15,000 Ordinary Shares of £10 each fully paid ..	150,000	0	0
20,000 7 % Preference Shares £10 each fully paid ..	200,000	0	0
21,732 5 % Preference Shares £10 each fully paid ..	217,320	0	0
5½ % Debenture Stock ..	150,000	0	0
4 % " " ..	420,000	0	0
Mortgage Creditors ..	263,700	0	0
Trade and Loan Creditors ..	117,000	0	0
Unpaid Dividends and Interest ..	200	0	0
	£1,518,220	0	0

ASSETS.

	£	s.	d.
Goodwill and Ingoings ..	180,600	0	0
Freehold Properties ..	1,103,550	0	0
Leasehold " ..	41,200	0	0
Short Leaseholds ..	5,250	0	0
Plant and Utensils ..	6,100	0	0
Horses and Carts, &c. ..	11,650	0	0
Bottling Plant ..	450	0	0
Furniture and Fittings ..	13,000	0	0
Debtors ..	17,000	0	0
Prepaid Rents, Rates, Licenses, Insurance and Compensation Charges ..	7,000	0	0
Stocks ..	36,000	0	0
Cash in Hand and at Bankers ..	12,000	0	0
Capital Suspense for renovation of houses ..	46,420	0	0
Profit and Loss ..	38,000	0	0
	£1,518,220	0	0

An action against certain members of the Board was in progress, which ultimately resulted in a cash return by them of £11,000, and a revaluation of the properties was obtained, and it was agreed (with the sanction of the Court) that the assets should be reduced by £202,928, to include a necessary expenditure to be incurred upon renovation of houses estimated at £38,000, such reduction being as follows :—

	£	s.	d.
Freehold Property ..	67,508	0	0
Plant and Utensils ..	3,000	0	0
Horses and Carts, &c. ..	4,000	0	0
Furniture and Fittings ..	6,000	0	0
Capital Suspense ..	46,420	0	0
Future Expenditure on renovation of houses ..	38,000	0	0
Profit and Loss—Balance ..	38,000	0	0

The various classes of Shareholders made considerable sacrifices, the Ordinary Shareholders reducing their share denomination from £10 to £3, the 7 per Cent. Preference Shareholders reducing their rate of dividend to 5½ per cent., and the 5 per Cent. Preference Shareholders reducing their share denomination from £10 to £6, both of the latter classes, however, to rank for a non-cumulative further dividend of 1½ per cent. whenever a dividend of 6 per cent. was paid to the Ordinary Shareholders.

Make the Journal Entries recording the above transactions, and draw up the Balance Sheet thereafter.

JOURNAL.

Sundries :— *Dr.*	£	s.	d.	£	s.	d.
To Capital Reduction Account :—				191,928	0	0
Ordinary Share Capital—						
Reduction of £7 per share on 15,000 shares	105,000	0	0			
5 % Preference Share Capital—						
Reduction of £4 per share on 21,732 shares	86,928	0	0			
Being reduction of Capital sanctioned by Order of the Court dated						
Cash :— .. .. *Dr.*	11,000	0	0			
To Capital Reduction Account				11,000	0	0
Being amount recovered by Members of the Board as the result of a legal action, to be utilised in writing off Capital Losses.						
Capital Reduction Account.. .. .. *Dr.*	202,928	0	0			
To Sundries :— ..						
Freehold Property				67,508	0	0
Plant and Utensils				3,000	0	0
Horses and Carts, &c.				4,000	0	0
Furniture and Fittings				6,000	0	0
Capital Suspense Account				46,420	0	0
Suspense Account for future expenditure on renovation of houses ..				38,000	0	0
Profit and Loss Account—Debit Balance				38,000	0	0
Being losses written off as per order of the Court dated						
	£202,928	0	0	£202,928	0	0

THE BREWERY COMPANY, LIMITED AND REDUCED.

Dr. BALANCE SHEET. *Cr.*

	£	s.	d.	£	s.	d.
To Share Capital :—						
15,000 Ordinary Shares of £10 each fully paid, reduced by order of the Court to £3 each	45,000	0	0			
20,000 7 % Preference Shares of £10 each fully paid, reduced by order of the Court to rank for Dividend at 5½%	200,000	0	0			
21,732 5 % Preference Shares of £10 each fully paid, reduced by order of the Court to £6 each	130,392	0	0			
				375,392	0	0
5½ % Debenture Stock	150,000	0	0			
4 % " "	420,000	0	0			
				570,000	0	0
Mortgage Creditors ..				263,700	0	0
Trade and Loan Creditors				117,000	0	0
Unpaid Interest and Dividends				200	0	0
Suspense Account :— Amount provided by order of the Court for future expenditure on renovation of houses				38,000	0	0
				£1,364,292	0	0

	£	s.	d.	£	s.	d.
By Goodwill and Ingoings				180,600	0	0
Freehold Properties ..	1,103,550	0	0			
Less written off by order of the Court	67,508	0	0			
				1,036,042	0	0
Leasehold Properties ..				41,200	0	0
Short Leaseholds ..				5,250	0	0
Plant and Utensils ..	6,100	0	0			
Less written off by order of the Court	3,000	0	0			
				3,100	0	0
Horses and Carts, &c.	11,650	0	0			
Less written off by order of the Court	4,000	0	0			
				7,650	0	0
Bottling Plant ..				450	0	0
Furniture and Fittings	13,000	0	0			
Less written off by order of the Court	6,000	0	0			
				7,000	0	0
Stocks				36,000	0	0
Debtors				17,000	0	0
Prepaid Rents, Rates, Licences, Insurance, and Compensation Charges				7,000	0	0
Cash in Hand and at Bankers				23,000	0	0
Capital Suspense for renovation of Houses	46,420	0	0			
Less written off by order of the Court	46,420	0	0			
				—		
Profit and Loss	38,000	0	0			
Less written off by order of the Court	38,000	0	0			
				—		
				£1,364,292	0	0

(b) Return of Capital out of Profits.

Under § 40 of the Companies (Consolidation) Act, 1908, when any Company has accumulated a sum of undivided profits, which with the

consent of the Shareholders may be distributed among the Shareholders in the form of a dividend or bonus, it shall be lawful for the Company by special resolution to return the same or any part thereof to the Shareholders in reduction of the paid-up capital of the Company, the unpaid capital being thereby increased by a similar amount.

The precise meaning of this section has been the subject of much discussion, since it has been stated that apparently a Company can go on returning the profits in reduction of paid-up capital indefinitely, without disturbing the credit balance of Profit and Loss ; but it is contended that the proper construction of the Act is to set aside to a Capital Reserve the proportion of profits so dealt with.

ILLUSTRATION—

The following is the Balance Sheet of a Company :—

BALANCE SHEET.

Liabilities.	£ s. d.	Assets.	£ s. d.
Share Capital :—		Sundry Assets	56,500 0 0
30,000 Shares £1 each fully paid ..	30,000 0 0		
Creditors	5,000 0 0		
General Reserve Account . ..	20,000 0 0		
P. & L. Account	1,500 0 0		
	£56,500 0 0		£56,500 0 0

It is desired to return 10s. in the £ in respect of Capital out of the Reserve. The Balance Sheet will then be as follows :—

BALANCE SHEET.

Liabilities.	£ s. d.	Assets.	£ s. d.
Share Capital :—		Sundry Assets	41,500 0 0
30,000 Shares £1 each, 10s. paid ..	15,000 0 0		
Creditors	5,000 0 0		
Capital Reserve Account	15,000 0 0		
General " "	5,000 0 0		
Profit and Loss Account	1,500 0 0		
	£41,500 0 0		£41,500 0 0

(c) Other modes of Reduction.

Capital can also be reduced by forfeiture of shares and surrender of shares. The latter is not always valid, and each case must be determined upon its merits. The former is only valid in respect of non-payment of calls or premiums when sanctioned by the Articles.

§ 19.—Re-constructions.

The sale of the undertaking of an existing Company to a new Company specifically formed for that purpose is termed a re-construction, and *may* be resorted to for the following objects :—

(1) For the purpose of raising fresh capital by issuing partly paid shares in the new Company in exchange for fully paid shares in the old Company, and calling up the balance of such new shares as and when required.

(2) For amalgamating two or more Companies.

(3) For taking new powers in the Memorandum, or changing the domicile of the Company.

(4) For rearranging the capital and the rights of Shareholders between themselves.

(5) For effecting a compromise with creditors, or the allotment to them of shares or debentures in settlement of their claims.

The cases of amalgamation and absorption of one Company by another have already been dealt with.

As regards the issue of partly paid shares, this involves a liability on the part of the new Shareholders, and consequently the original Shareholders cannot be compelled to take up such shares unless they wish to do so. Where there are dissentient Shareholders, provided they give notice of dissent in time, they can either require the Liquidator of the old Company not to carry out the scheme, or to purchase their interest at a price which, if not settled by agreement, shall be determined by arbitration.

Frequently it is arranged that the shares not taken up by Shareholders shall be allotted to the nominee of the Liquidator, who shall sell the same for the best price he can obtain, and divide the proceeds among the Shareholders who refuse to become parties to the scheme.

In cases where a Company has sustained a considerable loss of capital and is unable to satisfy its creditors in full, the re-construction scheme commonly provides for a reduction of the original capital, a compromise

with the creditors either for cash or for the issue of fully paid shares or debentures, and the provision of new working capital by the issue of shares partly paid up, in exchange for the shares held in the old Company.

ILLUSTRATION—

The final Trial Balance of the Patent Bottle Company, Limited, was as follows :—

	£ s. d.	£ s. d.
Share Capital—		
50,000 Shares of £1 each fully paid ..		50,000 0 0
Creditors		26,500 0 0
Patent Rights	48,000 0 0	
Debtors	4,500 0 0	
Stock	10,000 0 0	
Preliminary Expenses	1,800 0 0	
Profit and Loss Account	12,050 0 0	
Cash	150 0 0	
	£76,500 0 0	£76,500 0 0

Efforts to secure sufficient new capital to pay off the liabilities and place the concern on a sound basis having proved unsuccessful, it was decided to re-construct, and the following scheme was submitted to, and approved by, the Shareholders and Creditors :—

(1) The Company to go into voluntary liquidation, and a new Company having a Nominal Capital of £100,000 to be formed, called the New Patent Bottle Company, Limited, to take over the assets and liabilities of the old Company.

(2) The assets to be taken over at book value, with the exception of the Patent Rights, which were to be subject to adjustment.

(3) The creditors to be discharged by the new Company on the following basis :—

	£ s. d.
Preferential to be paid in full	500 0 0
Unsecured to be discharged by cash composition of 10s. in the £	13,400 0 0
Unsecured to be discharged by issue of 6 per cent. Debentures fully paid at a bonus of 10 per cent. ..	12,600 0 0
	£26,500 0 0

(4) 50,000 Shares of £1 each, 10s. paid up, to be issued to the Shareholders in the old Company, payable 5s. on Application and 5s. on Allotment.

(5) The costs of liquidation amounting to £250 to be paid by the new Company as part of the purchase consideration.

Close the books of the old Company, and show the opening entries in the new Company's books, preparing therefrom a Balance Sheet ; assuming all the shares and debentures to have been allotted, and all cash in respect of the shares to have been received.

OLD COMPANY'S BOOKS.

JOURNAL.

		£ s. d.	£ s. d.
Realisation Account .. .. *Dr.*		76,500 0 0	
To Sundry Debit Balances (as per Trial Balance)			76,500 0 0
Being debit balances transferred.			
Purchasing Company .. .. *Dr.*		1,260 0 0	
To Sundry Creditors			1,260 0 0
Being Bonus of 10 % on £12,600, payable in 6 % Debentures fully paid, as per agreement.			
Purchasing Company .. .. *Dr.*		45,050 0 0	
To Realisation Account			45,050 0 0
Being Purchase consideration payable under scheme as follows :—			
50,000 Shares of £1 each, 10s. paid up, to be issued to Shareholders	£25,000 0 0		
£12,600 6 % Debentures fully paid, to be issued to Creditors in part payment	12,600 0 0		
Cash to Creditors in part payment of Unsecured Creditors and in full discharge of Preferential Creditors ..	7,200 0 0		
Cash for Liquidation Expenses	250 0 0		
	£45,050 0 0		
Realisation Account .. .. *Dr.*		250 0 0	
To Cash			250 0 0
Being payment of Liquidation Expenses.			
Sundries :— *Dr.*			
To Purchasing Company			46,310 0 0
Shares Account—50,000 Shares £1 each, 10s. paid up		25,000 0 0	
Debentures Account—£13,860 6 % Debentures		13,860 0 0	
Cash		7,450 0 0	
		£46,310 0 0	£46,310 0 0
Being assets handed over by New Company to Liquidator in settlement of Purchase consideration.			
Sundry Creditors .. .. *Dr.*		27,760 0 0	
To Sundries :—			
Debenture Account			13,860 0 0
Cash			7,200 0 0
Realisation Account			6,700 0 0
		£27,760 0 0	£27,760 0 0
Being discharge of amounts due to Sundry Creditors as per agreement and transfer of balance to Realisation Account.			
Shareholders' Account .. .. *Dr.*		25,000 0 0	
To Realisation Account			25,000 0 0
Being loss on Realisation.			
Share Capital Account .. .. *Dr.*		50,000 0 0	
To Shareholders' Account			50,000 0 0
Being Share Capital Transferred.			
Shareholders' Account .. .. *Dr.*		25,000 0 0	
To Shares Account			25,000 0 0
Being issue of 50,000 Shares £1 each, 10s. paid up, in New Company in exchange for Shares in Old Company.			

LEDGER.

Dr. REALISATION ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Sundries	76,500 0 0	By Purchasing Company	45,050 0 0
,, Cash for Expenses	250 0 0	,, Sundry Creditors	6,700 0 0
		,, Shareholders' Account, being Loss	25,000 0 0
	£76,750 0 0		£76,750 0 0

Dr. PURCHASING COMPANY'S ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Creditors, 10% Bonus	1,260 0 0	By Sundries	46,310 0 0
„ Realisation Account	45,050 0 0		
	£46,310 0 0		£46,310 0 0

Dr. SUNDRY CREDITORS' ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Debentures	13,860 0 0	By Balance	26,500 0 0
„ Cash	7,200 0 0	„ Purchasing Company	1,260 0 0
„ Realisation Account	6,700 0 0		
	£27,760 0 0		£27,760 0 0

Dr. SHAREHOLDERS' ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Realisation Account, Loss	25,000 0 0	By Share Capital Account	50,000 0 0
„ Shares Account	25,000 0 0		
	£50,000 0 0		£50,000 0 0

Dr. CASH BOOK. *Cr.*

	£ s. d.		£ s. d.
To Purchasing Company	7,450 0 0	By Sundry Creditors	7,200 0 0
		„ Liquidation Expenses	250 0 0
	£7,450 0 0		£7,450 0 0

NEW COMPANY'S BOOKS.

JOURNAL.

	£ s. d.	£ s. d.
Sundry Assets :— *Dr.*		
To Vendor		46,310 0 0
Patent Rights	31,660 0 0	
Debtors	4,500 0 0	
Stock	10,000 0 0	
Cash	150 0 0	
	£46,310 0 0	£46,310 0 0
Being assets taken over in accordance with Scheme of Re-construction.		
Vendor *Dr.*	46,310 0 0	
To Sundries :—		
Share Capital Account—50,000 Shares £1 each, 10s. paid up		25,000 0 0
Debentures 6%		13,860 0 0
Cash		7,450 0 0
	£46,310 0 0	£46,310 0 0
Being Shares and Debentures issued and Cash paid in settlement of Purchase consideration.		
Application and Allotment Account *Dr.*	25,000 0 0	
To Share Capital		25,000 0 0
Being 5s. per Share payable on application and 5s. on allotment of 50,000 Shares issued.		

Dr. CASH BOOK. *Cr.*

	£ s. d.		£ s. d.
To Vendor	150 0 0	By Vendor	7,450 0 0
„ Application and Allotment	25,000 0 0	„ Balance	17,700 0 0
	£25,150 0 0		£25,150 0 0
To Balance..	£17,700 0 0		

Dr. BALANCE SHEET. *Cr.*

	£ s. d.		£ s. d.
To Nominal Capital :— 100,000 Shares £1 each	100,000 0 0	By Patent Rights	31,660 0 0
		„ Debtors	4,500 0 0
„ Issued Capital :—		„ Stock	10,000 0 0
50,000 Shares £1 each, fully paid	50,000 0 0	„ Cash	17,700 0 0
„ 6% Debentures	13,860 0 0		
	£63,860 0 0		£63,860 0 0

Notes to Illustration.

(a) Payment of Creditors.

As the Liquidator is responsible to the Creditors of the Old Company to see that the conditions as set forth in the scheme of Re-construction are duly carried out, the liabilities will be discharged through him, and the transactions will consequently be recorded in the books of the Old Company.

(b) The Adjusted Value of the Patent Rights.

The value placed upon the Patent Rights is arrived at by taking the difference between the Purchase price payable to the Vendor and the assets taken over upon which an agreed value was placed. The debit balance to Profit and Loss Account and the Preliminary Expenses as shown in the Trial Balance of the Old Company are, of course, ignored in the books of the New Company.

SYNOPSIS OF CHAPTER IX.

TOTAL ACCOUNTS AND SECTIONAL BALANCING.

§ 1.—Total Accounts.

(*a*) Total Debtors Account.

(*b*) Total Creditors Account.

(*c*) Transfer Journal.

(*d*) Columnar Books.

2.—Sectional Balancing or Self-balancing Ledgers.

3.—Errors in Balancing.

CHAPTER IX.

TOTAL ACCOUNTS AND SECTIONAL BALANCING.

§ 1.—Total Accounts.

In a business of any magnitude it is very desirable to raise Total Accounts in respect of the Sold and Bought Ledgers, representing Debtors and Creditors, for the following reasons:—

(1) In order that a Trial Balance may be prepared without taking out the individual personal balances, thus enabling Draft Accounts at any time to be drawn out more quickly.

(2) To locate errors, and thus prevent waste of time in balancing.

(3) If these accounts are not under the control of the Ledger Keepers, they can be made to form an important part of the internal check.

(a) Total Debtors Account.

The object of this account is to show a balance which will equal the net total of all the individual balances in the Sales Ledgers. It should be remembered that the Sales Ledgers may contain a few isolated accounts showing credit balances. The net balance of the Total Debtors Account, however, will only represent the difference between the total of the debit balances and the total of the credit balances (if any).

As soon as the balance of the Total Account is agreed with the Schedule of Balances extracted from the Sales Ledgers, balances will be brought down on either side of the Total Account representing the total debit and credit balances in the Sales Ledgers.

The principle of a Total Debtors Account is as follows:—Every item that has been posted in detail to the debit of the various Personal Accounts in the Sales Ledgers, must be posted in total to the debit of the Total Debtors Account in the Impersonal or Private Ledger, and in

the same way, each item that has been posted in detail to the credit of the various Personal Accounts in the Sales Ledgers, must be posted in total to the credit of the Total Debtors Account.

On the debit side of the Total Debtors Account will be found :—

(1) Opening balances.
(2) Goods sold during the period.
(3) Dishonoured bills and cheques (if any).
(4) Discount originally allowed but subsequently disallowed.
(5) Cash and other items (if any).
(6) Transfers (if any).

On the credit side of the Total Debtors Account will be found :

(1) Opening credit balances (if any).
(2) Cash received during the period.
(3) Discount payable.
(4) Returns Inwards, and Allowances.
(5) Bills Receivable.
(6) Bad Debts and other items (if any).
(7) Transfers (if any).

Dealing with the debit side :—

(1) The opening balances will be brought down from the previous period, and will agree with the total of the last Schedule of Debtors.

(2) The goods sold during the period will be obtained from the Sales Day Book, the totals of this book being posted monthly or quarterly, as the case may be.

(3) Dishonoured bills will be obtained from an analysis of the Transfer Journal. This should not involve any serious difficulty, as the number of such items will not in all probability be great.

Should any of the dishonoured bills have been discounted, the entry debiting the Personal Account in the Sales Ledger will probably have been made direct from the Cash Book. In such cases the adjusting entry in the Total Debtors Account should have been made simultaneously with the cash posting. The whole of these dishonoured bill items can be easily checked, however, as the

Remarks column in the Bills Receivable Book should show at a glance all bills which have been discounted, and all which have been dishonoured.

(4) The item of Discount on the debit side of the Total Debtors Account will be due in all probability to Dishonoured Bills, the Discount being credited to the Personal Account at the time when the bill was given, and debited as soon as the bill proved worthless. The total of Discount thus debited will be obtained from an analysis of the Transfer Journal.

Dealing with the credit side :—

(1) The opening credit balances (if any) represent the total of the Personal balances which were in credit at the close of the preceding period.

(2) The total cash received in respect of Debtors, and which has been posted to the Sales Ledgers during the period, will be obtained from the Sales Ledger column in the Cash Book. The total of this column will be posted to the Total Debtors Account monthly or quarterly, as the case may be.

(3) Discount Payable would be obtained from the totals of the Discount Payable column in the Cash Book, and from the Cash Discount column in the Bills Receivable Book (if any). In cases where no such column is provided in the Bills Receivable Book, the Discount will either have been entered in the Discount column in the Cash Book, or else a separate Journal entry will have been made for each item in the Transfer Journal. In the latter case the total will be obtained from an analysis of this book.

(4) Returns Inwards will be obtained from the totals of the Sales Returns Book, which will be posted to the Total Debtors Account monthly or quarterly, as the case may be. Allowances will be obtained from the analysis of the Transfer Journal.

(5) Bills Receivable will be obtained from the total of the Bills Receivable Book, which will be posted to the Total Debtors Account monthly or quarterly, as the case may be.

(6) The Bad Debts will be obtained from the analysis of the Transfer Journal.

(b) Total Creditors Account.

The object of this account is to show in one account a balance equal to the total of all the individual balances in the Bought Ledgers added together. The account is raised in a similar manner to the Total Debtors Account.

On the credit side will be found :—

(1) The opening balances.

(2) Goods purchased during the period.

(3) Transfers and other items (if any).

On the debit side will be found :—

(1) Opening debit balances (if any).

(2) Cash paid during that period.

(3) Discount Receivable.

(4) Returns Outwards.

(5) Bills Payable.

(6) Transfers and other items (if any).

Dealing with the credit side :—

(1) The opening balances will be brought down from previous period, and will agree with the total of the last Schedule of Creditors.

(2) Goods purchased during the period will be obtained from the Bought Day Book, the totals of this book being posted monthly or quarterly, as the case may be.

Dealing with the debit side :—

(1) The opening debit balances (if any) will represent the total of the Personal balances which were in debit at the close of the preceding period.

(2) The total cash paid in respect of creditors which has been posted to the Bought Ledger during the period will be obtained from the Bought Ledger column in the Cash Book. The total of this column will be posted monthly or quarterly, as the case may be.

(3) Discount Receivable will be obtained from the totals of the Discount Receivable column in the Cash Book, and from the Cash Discount column in the Bills Payable Book (if any). If no such column is provided in the Bills Payable Book, and the items have not been passed through the Discount column in the Cash Book, the total will be obtained from an analysis of the Transfer Journal.

(4) Returns Outwards will be obtained from the totals of the Bought Returns Book, which will be posted monthly or quarterly, as the case may be.

(5) Bills Payable will be obtained from the totals of the Bills Payable Book, which will be posted monthly or quarterly, as the case may be.

(c) Transfer Journal.

In any system of Total Accounts it is of the utmost importance to pass all items through some subsidiary book of prime entry before posting the same to the Ledger. If this rule is not strictly adhered to, endless trouble in balancing the books is almost inevitable.

The Transfer Journal is consequently of considerable importance to record those items for which no specific subsidiary book of prime entry is provided.

The following is a convenient ruling where the book is used solely to record the various Transfers. It cannot, however, take the place of the ordinary Journal, nor is it intended to do so.

ILLUSTRATION—

TRANSFER JOURNAL.

Date.	Account to be debited.	Folio.	Amount.	Folio.	Account to be credited.	Date.

ILLUSTRATION–

On the 1st January, 1920, the balances as per the Schedule of Sales Ledger balances were £16,000 debit and £64 credit, and the Bought Ledger balances at the same date came to £8,760 credit and £59 debit.

During the six months ending 30th June, 1920, the Sales amounted to £46,000, Purchases to £39,340; the Cash received from Debtors £42,240, and the Cash paid to Creditors £39,552; the Discount Payable £1,760, and the Discount Receivable £1,648; Returns Inwards £850, Returns Outwards £620; Bills Receivable £1,780, Bills Payable £2,740; the Dishonoured Bills amounted to £190; Discount allowed to Debtors, but subsequently disallowed amounted to £10; Bad Debts written off £320; and the Transfers from the credit of the Bought Ledgers to the debit of the Sales Ledgers equalled £13.

The Schedule of Sales Ledger balances at the 30th June amounted to £15,208 debit and £9 credit; and on the Bought Ledger to £3,559 credit and £65 debit.

Prepare from these particulars a Total Debtors Account and a Total Creditors Account, bringing down the balances as at 30th June, proving the correctness of the Sales and Bought Ledgers respectively.

Dr. TOTAL DEBTORS ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920.			1920.		
Jan. 1	To Balance	16,000 0 0	Jan. 1	By Balance	64 0 0
June 30	„ Sales	46 000 0 0	June 30	„ Cash	42,240 0 0
	„ Dishonoured Bills ..	190 0 0		„ Discount Payable ..	1,760 0 0
	„ Discount	10 0 0		„ Returns Inwards ..	850 0 0
	„ Transfers	13 0 0		„ Bills Receivable ..	1,780 0 0
	„ Balance	9 0 0		„ Bad Debts	320 0 0
				„ Balance	15,208 0 0
		£62,222 0 0			£62 222 0 0
1920.			1920.		
July 1	To Balance	£15,208 0 0	July 1	By Balance	£9 0 0

Dr. TOTAL CREDITORS ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1920			1920.		
Jan. 1	To Balance	59 0 0	Jan. 1	By Balance	8,760 0 0
June 30	„ Cash	39,552 0 0	June 30	„ Purchases	39,340 0 0
	„ Discount Receivable ..	1,648 0 0		„ Transfers	13 0 0
	„ Returns Outwards ..	620 0 0		„ Balance	65 0 0
	„ Bills Payable	2,740 0 0			
	„ Balance	3,559 0 0			
		£48,178 0 0			£48,178 0 0
1920.			1920.		
July 1	To Balance	£65 0 0	July 1	By Balance	£3,559 0 0

Note to Illustration.

The accuracy of the Total Accounts should be tested by drawing out a Trial Balance, including the balances on these accounts. If this agrees it may be assumed that the Total Accounts are correct, but it is advisable to check all Impersonal postings to avoid the possibility of compensating errors.

(d) Columnar Books.

The books of prime entry should where necessary be so ruled as to provide the necessary totals. The following rulings would apply to the Cash Book, Sales Day Book, and Bought Day Book where there are two Sales Ledgers and one Bought Ledger.

ILLUSTRATION—

CASH BOOK.

Dr.																			*Cr.*
						S.L., Town.		S.L., Country.		Impersonal Ledger.							Bought Ledger.		Impersonal Ledger.
Date.	Particulars.	Folio.	Discount.	Details.	Bank.	Discount.	Amt.	Discount.	Amt.	Amt.	Date.	Particulars.	Folio.	Discount.	Details.	Bank.	Discount.	Amt.	Amt.

SALES DAY BOOK.

					Sales Ledger.	Sales Ledger.
Date.	Name.	Particulars.	Folio.	Total.	Town.	Country.

BOUGHT DAY BOOK.

Date.	Name.	Particulars.	Folio.	Amount.

§ 2.—Sectional Balancing or Self-Balancing Ledgers.

The separate proving of Ledgers forms an important part in almost every system of Accounts. The method of having separate columns for each Ledger in the Cash Book and books of prime entry cannot be generally adopted, conveniently, where there are a large number of Ledgers, owing to the rulings, which render the book too cumbrous. Even the system of having separate books of prime entry for each Ledger cannot often be used, as the clerks who make the prime entries are frequently junior clerks, who cannot be expected to know to which Ledger each particular item refers.

Thus a method to a certain extent analytical becomes almost imperative. The books of prime entry, which include the Day Books, Returns Books, &c., should be ruled with columns merely for purposes of departmentalisation, and not in any way for the purpose of proving the Ledgers. The number of such books should be governed entirely by the volume of transactions involved, and the requirements of the scheme of work in the counting-house. Each Ledger clerk should post from the books of prime entry those items which refer to the particular Ledger or Ledgers under his control.

The following is an outline of a scheme for sectional balancing, and is based on a system adopted with complete success by a large manufacturing concern :—

(1) A prime entry should be made for each transaction. No transfers from one Ledger to another should be made without the entry first being passed through the Transfer Journal. This rule should be most rigidly enforced, as otherwise a great deal of difficulty may be experienced in agreeing the balances of the particular Ledger with the Total Account applicable to that Ledger.

(2) In the books of prime entry the posting references should be made as follows :—Each Ledger should be distinguished by a particular letter, and this letter should be written in fairly large

print just outside the folio column in the book of prime entry. The folio column will, of course, contain merely the reference to the particular page of the Ledger concerned, and so by glancing down the page of any of the books of prime entry, the letters denoting the particular Ledgers are apparent.

(3) At the end of each month a clerk should take each of the books of prime entry, including the Cash Book, and prepare separate lists of the amounts referring to each particular Ledger. These lists should be called over and checked, and any error adjusted before entering the totals into the Summary Book. It should be remembered that the reference to the particular Ledger is entered in bold type, and consequently the accurate preparation of these lists is by no means a difficult task.

(4) The totals of the lists referring to any book of prime entry should agree with the total of that book for the period, and when such lists have been checked they should be entered into a Summary Book, which should have separate columns or pages for each Ledger in use.

(5) The Summary Book should then contain particulars of all the entries in the books of prime entry correctly analysed, so that with the balances brought forward from the previous period Total Accounts result for each Ledger. The net total of the balances upon any one Ledger should then agree with the balance of the columns in the Summary Book applicable to that Ledger.

(6) The clerks who take out the Ledger balances on to the sheets, or into the Balance Books, should have had nothing whatever to do with the postings of these particular Ledgers; and no Ledger balances whatsoever should be taken out by the clerk who prepares the analysed lists for entry in the Summary Book.

(7) The Summary Book should be under the immediate control of some responsible official, and no Ledger clerk should be allowed access to it.

The practice of having the Total Accounts relating to each Ledger at the back of the Ledger itself in addition to Total Accounts in the Nominal or Private Ledgers, is both unnecessary and undesirable.

> It is unnecessary, as it involves the Account being prepared twice merely to serve a theoretical purpose ; and
>
> It is undesirable, as it not only destroys a valuable form of Internal Check, but places the ordinary Ledger clerks in possession of total figures.

The following is an illustration of a Sales Ledger Summary Book, ruled for a business having five Sales Ledgers.

ILLUSTRATION—

Dr. SALES LEDGERS SUMMARY BOOK. *Cr.*

Date.	Particulars.	Ledg. A	Ledg. B	Ledg. C	Ledg. D	Ledg. E	Total.	Date	Particulars.	Ledg. A	Ledg. B	Ledg. C	Ledg. D	Ledg E	Total.
1920. Jan. 1	To Balance							1920. Jan. 1	By Balance						
,, 31	,, Sales							,, 31	,, Cash						
	,, Dishonoured Bills								,, Discount Payable						
	,, Discount								,, Returns Inwards						
	,, Transfers								,, Bills Receivable						
	,, Cash								,, Bad Debts						
	,, Balance								,, Transfers						
									,, Balance						
	£								£						
1920. Feb. 1	To Balance							1920. Feb. 1	By Balance						

Notes to Illustration.

A separate page in the Summary Book could be allotted to each Ledger if desired.

In practice the Summary Book would not be balanced off and agreed more often than quarterly or even half-yearly.

The Total column will be found useful for purposes of checking with the monthly totals in the books of prime entry, and can be used as a Total Debtors Account.

§ 3.—Errors in Balancing.

If it is found that the balances upon any particular Ledger do not agree with the Total Account relating thereto, the following work should be performed :—

(1) Check the additions of the books of prime entry relating to the particular ledger.

(2) Recheck the Total Accounts.

(3) Check the postings made in such ledger.

(4) Recheck the balances.

(5) Recast the balances.

(6) Check the opening balances with previous Schedule of Accounts in the Ledger concerned, seeing that they are properly brought down.

If this does not bring the error to light, it will be necessary to analyse the Ledger and agree the totals of the books of prime entry with the analysis.

If the Trial Balance disagrees apart from the Total Accounts, or if no Total Accounts system is in force, the procedure for the discovery of the cause of difference will be on the following lines :—

After the Trial Balance has been recast, it should be seen whether the amount of the error is capable of being interpreted as a mis-posting. Thus, if the difference is £4 5s. 2d., it may arise through £4 10s. 0d. being posted as 4s. 10d., and all items of that amount in the books of prime entry should be subjected to scrutiny.

If the amount of the error is divisible by two, it is possible either that a posting of half the amount has been made to the wrong side of the Ledger, or that a balance of half the amount has been placed in the wrong column of the Trial Balance.

If the error is not discovered after any of these ideas have been considered, and the books scrutinised in respect thereof, the balances should be rechecked in detail on to the Trial Balance.

If the error still remains undetected, the whole of the books of prime entry must be cast, and, if necessary, the postings must be also rechecked. All carry forwards must be watched, since a reversion of figures in this respect may be the cause of the discrepancy. In casting the Ledgers, exceptional care should be taken to see that balances have been properly carried down, and that the accounts do actually balance; and it may be necessary to check the opening balances from the previous Balance Sheet and Schedules.

If total accounts have not been kept, these may, in the last resource, be compiled; and with their aid the error should certainly be located.

SYNOPSIS OF CHAPTER X.

DEPARTMENTAL ACCOUNTS, BRANCH ACCOUNTS, AND FOREIGN EXCHANGE.

CHAPTER X.

DEPARTMENTAL ACCOUNTS, BRANCH ACCOUNTS, AND FOREIGN EXCHANGE.

§ 1.—Departmental Accounts.

In the case of a business where there are two or more departments, it is very important that the accounts should be so arranged as to enable the trading results of each department to be accurately ascertained as regards turnover and expenses as well as profits.

The principle of Departmental Accounts can be applied to any kind of business, whether it is of a manufacturing or a retail nature. It is proposed, however, to deal in this section only with accounts of this nature affecting a Wholesale Business, since the principle on which the Departmental Accounts of a Retail Business should be kept, approximates very closely to the systems necessary for Retail Branches, which are fully discussed subsequently.

In order to obtain the desired particulars, separate records must be kept of the purchases and sales of each department. Stock of each department must be separately taken, and the expenses that can be allocated direct to any department must be charged thereto, other expenses which cannot be so allocated being divided on some reasonable basis, either in proportion to the turnover of each department, or (as in the case of rent) to the amount of floor space occupied, or in any other way which may be advisable under the circumstances. In order to allocate the purchases and sales correctly, either separate day books must be kept for each department, or columnar day books with a column for each department; otherwise the day books must be analysed. The first method is not always convenient, as it frequently involves a large number of duplicate entries, especially as regards purchases.

Where the number of departments is reasonably limited, it is most convenient to adopt columnar forms of bought and sold day books,

return books, &c., having a total column from which the posting is made to the Personal Account, and being provided with detail columns, the totals of which at the end of each month, or other period, are posted to their respective accounts in the Impersonal Ledger.

The following is a ruling of a Columnar Bought Day Book convenient for a Hat Manufactory, where there are three departments :—

ILLUSTRATION—

DEPARTMENTAL BOUGHT DAY BOOK.

Date.	Inv. No.	Particulars.	Folio.	TOTAL.	Silks.	Felts.	Helmets.

It is important to note that stock must be taken for each department separately, and proper records kept of all transfers from one department to another.

ILLUSTRATION—

The following is the Trial Balance of the Excelsior Trading Company, Limited, on 30th September, 1920 :—

	£ s. d.	£ s. d.
Ordinary Share Capital		10,000 0 0
Preference „ „		5,000 0 0
4% First Mortgage Debentures		5,000 0 0
Stock 30th September, 1919, Dept. A.	8,000 0 0	
„ „ „ „ „ B.	3,000 0 0	
Purchases, Dept. A.	23,000 0 0	
„ „ B.	15,000 0 0	
Wages, „ A.	1,000 0 0	
„ „ B.	500 0 0	
Carriage and Freight	1,500 0 0	
Salaries	750 0 0	
Travelling Expenses	900 0 0	
Incidental „	150 0 0	
Rates and Taxes	300 0 0	
Fuel, Light and Water	120 0 0	
Insurance	60 0 0	
Sales Dept. A.		30,000 0 0
„ „ B.		20,000 0 0
Sundry Debtors	9,000 0 0	
Bills Receivable	1,500 0 0	
Sundry Creditors		4,000 0 0
Freehold Premises	4,200 0 0	
Managing Director's Salary	1,000 0 0	
Directors' Fees	500 0 0	
Stationery and Stamps	170 0 0	
Discounts	600 0 0	
Preference Dividend half-year to 31st March, 1920	150 0 0	
Debenture Interest half-year to 31st March, 1920	100 0 0	
Cash in Hand	100 0 0	
Balance at Bank	3,000 0 0	
Profit and Loss Account—Balance from 30th September, 1919		600 0 0
	£74,600 0 0	74,600 0 0

Provide £500 for Bad Debts, and make out departmental Trading and Profit and Loss Accounts (dividing the expenses between the departments in proportion to the sales), and Balance Sheet at 30th September, 1920. The Stock at 30th September, 1920, was :—Department A. £6,000, Department B. £2,800. The Nominal Capital of the Company is £25,000, divided into 15,000 Ordinary Shares of £1 each, and 10,000 6 per Cent. Cumulative Preference Shares of £1 each, and the Shares issued are fully paid.

THE EXCELSIOR TRADING COMPANY, LIMITED.

Dr. DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDING 30TH SEPTEMBER, 1920. *Cr.*

	Dept. A.	Dept. B.	TOTAL.		Dept. A.	Dept. B.	TOTAL.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Stock	8,000 0 0	3,000 0 0	11,000 0 0	By Sales	30,000 0 0	20,000 0 0	50,000 0 0
,, Purchases	23,000 0 0	15,000 0 0	38,000 0 0	,, Stock	6,000 0 0	2,800 0 0	8,800 0 0
,, Wages	1,000 0 0	500 0 0	1,500 0 0				
,, Balance, being Gross Profit.	4,000 0 0	4,300 0 0	8,300 0 0				
	£36,000 0 0	£22,800 0 0	£58,800 0 0		£36,000 0 0	£22,800 0 0	£58,800 0 0
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Managing Director's Salary	600 0 0	400 0 0	1,000 0 0	By Gross Profit	4,000 0 0	4,300 0 0	8,300 0 0
,, Directors' Fees	300 0 0	200 0 0	500 0 0	,, Balance, being Net Loss	50 0 0	—	—
,, Carriage and Freight ..	900 0 0	600 0 0	1,500 0 0				
,, Salaries	450 0 0	300 0 0	750 0 0				
,, Travelling Expenses ..	540 0 0	360 0 0	900 0 0				
,, Incidental Expenses ..	90 0 0	60 0 0	150 0 0				
,, Rates and Taxes ..	180 0 0	120 0 0	300 0 0				
,, Fuel, Light and Water	72 0 0	48 0 0	120 0 0				
,, Insurance	36 0 0	24 0 0	60 0 0				
,, Stationery and Stamps	102 0 0	68 0 0	170 0 0				
,, Discounts	360 0 0	240 0 0	600 0 0				
,, Bad Debts	300 0 0	200 0 0	500 0 0				
,, Debenture Interest ..	120 0 0	80 0 0	200 0 0				
,, Balance, being Net Profit carried to Balance Sheet	—	1,600 0 0	1,550 0 0				
	£4,050 0 0	£4,300 0 0	£8,300 0 0		£4,050 0 0	£4,300 0 0	£8,300 0 0

THE EXCELSIOR TRADING COMPANY, LIMITED.

Dr. BALANCE SHEET, 30TH SEPTEMBER, 1920. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Nominal Capital—			By Freehold Premises ..		4,200 0 0
15,000 Ordinary Shares of £1 each ..	15,000 0 0		„ Stock		8,800 0 0
10,000 6 % Cumulative Preference Shares of £1 each ..	10,000 0 0		„ Sundry Debtors ..	9,000 0 0	
			Less Reserve for Bad Debts	500 0 0	8,500 0 0
25,000		£25,000 0 0	„ Bills Receivable ..		1,500 0 0
„ Issued Capital—			„ Cash at Bank	3,000 0 0	
10,000 Ordinary Shares of £1 each, fully paid	10,000 0 0		„ Cash in Hand	100 0 0	3,100 0 0
5,000 Preference Shares of £1 each, fully paid	5,000 0 0	15,000 0 0			
„ 4 % 1st Mortgage Debentures	5,000 0 0				
„ Interest Accrued ..	100 0 0	5,100 0 0			
„ Sundry Creditors ..		4,000 0 0			
Profit & Loss Account— Balance at 1st October, 1919	600 0 0				
Add Profit for year ..	1,550 0 0				
	2,150 0 0				
Less Interim Preference Dividend paid	150 0 0	2,000 0 0			
		£26,100 0 0			£26,100 0 0

§ 2.—Branch Accounts.

The system of Branch Accounts to be applied in any particular case will depend upon the special circumstances of the business, the principal points to bear in mind being the necessity of obtaining the maximum results with the minimum amount of labour, in conjunction with an adequate check on the branch manager.

Broadly speaking, Branches may be divided into three classes:—

(1) Wholesale Branches.

(2) Retail Branches.

(3) Branches where the whole of the detail is recorded in the Branch books.

It is proposed to describe here the principal systems which are in common use in each case.

§ 3.—Wholesale Branches.

In the case of a business possessing wholesale branches through which goods are sold, all purchases being made by the Head Office itself, it is usually found possible to arrange for the branch accounts to be kept

in detail at the head office. The branch will not be permitted to collect cash from its debtors, but statements will be sent out by the Head Office, and cash remitted direct by the customer thereto, and as a result, the only cash receipts by the branch will take the form of cash sales, which will probably not be numerous. The expenses at the branch will be of a cash nature, and will be dealt with through an Imprest Petty Cash Account with the Head Office, the manager sending up each month or other period a statement showing his disbursements, and receiving a cheque for the precise amount thereof.

In such a case the record of the sales and other transactions with customers entered into by the branch will be made in triplicate, one copy going to the customer as an invoice, the second being sent up to the head office day by day, while the third remains at the branch for reference. From these returns the Head Office will write up the sales ledgers applicable to the branch. The same principle will apply to returns and allowances.

If the nature of the stock renders it possible, it is desirable that quantity accounts should be kept of the stock sent to, and the sales made by, each branch, the balance being agreed with the stock on hand taken at each balancing period, any discrepancies then discovered being enquired into.

Where it is not desired to ascertain the exact profit or loss made at the branch, the result of the trading can be approximately arrived at by deducting the expenses from the estimated gross profit on turnover based on the experience of previous periods. Where, however, it is desired to ascertain the exact result, the goods sent to the branch by the head office must be charged out at cost, when it will be possible to prepare an ordinary Trading Account in respect of the branch from the Head Office books.

The above system of Branch Accounts is the simplest of its kind, and is very similar to the Departmental Accounts dealt with in § 1. The case of Wholesale Branches where all the transactions are recorded in the branch books will be similar to the class discussed under § 5.

§ 4.—Retail Branches.

(a) Goods charged to Branches at selling price.

The principal point in formulating a system of accounts for retail branches where cash transactions are numerous, is that it shall form an adequate check on the transactions both as regards stock and cash. Bearing this in mind, where the selling price of the articles is a fixed one, and the number and variety is not such as to prevent its adoption, the system of charging goods issued to the branch at selling price will be found the most advantageous. At the head office there will be a branch ledger, which will contain the following accounts for each branch :—

Stock Account,
Expense Accounts,
Total Debtors Account ;

the latter account not being requisite where there are no credit sales.

All goods issued to the branch will be charged up to the Stock Account at selling price, the total amount received from the branch in respect of cash sales, and the total credit sales at the branch being credited to this account. An exact record must be kept of all allowances off selling price, and these will also be credited here when necessary. The balance of this Branch Stock Account at the end of each period will represent the closing stock at the branch at selling price, and must be agreed with the actual stock taken, any difference being either traced to its origin, or, if small, written off. The next account will start on the debit side with the opening stock at selling price.

The expenses will no doubt be paid by the head office partly by cheque direct and partly on the imprest system, and will be charged up to the expense accounts. The branch will send up monthly details of its credit sales to the head office, showing the total sales effected, cash received in respect thereof, discount, returns and allowances, bad debts, and any special items, and at balancing periods, a schedule of the closing balances. From these particulars the Total Debtors Account can be written up in the Branch Ledger at the Head Office, credit sales being debited thereto, and credited to the stock account as previously mentioned.

The cash remitted to the head office in respect of credit sales would be credited to this account, and entries put through to record the returns, allowances, bad debts, &c. The closing balance on this account should then agree with the total of debtors outstanding.

In the above instance it has been presumed that all purchases are made by the head office, as will usually be the case where retail branches are concerned.

Where the system described is adopted, it will not be possible to ascertain from the books without special calculation the exact profit or loss at the branch, owing to the fact that the goods are charged out at selling price; but this disadvantage is more than counterbalanced by the very material benefit obtained from being able to prove the correctness of the stock, and consequently also of the cash. Moreover, in businesses of this nature the average rate of gross profit is usually constant, and consequently as long as the turnover of the branch is known, the result of trading can easily be calculated.

In the Head Office Books it will be remembered that the closing balances of Stock on Hand at the branches are brought down at selling price. If no adjustments were made, this would have the effect of taking credit for profit on stock not yet sold, and consequently allowance must be made for the difference between selling price and cost price of these stocks. The simplest way to make this adjustment will be as follows:—

The goods sent to the branches, which were in the first instance debited to the various Branch Stock Accounts, will have been credited to a Goods Sent to Branches Account. The total of the closing stocks at selling price will be ascertained, and such amount will be brought down as a credit balance on this Goods Sent to Branches Account, thus forming a counterbalancing item for the respective debit balances on the Branch Stock Accounts, and enabling them to be eliminated altogether from the final Balance Sheet.

The remaining amount to the credit of the Goods Sent to Branches Account will represent the actual sales at the branches, and will be transferred to the General Trading Account. The stock of goods at the branches must be calculated at cost, and brought in as part of the

general stock of the business. If this method is pursued each year, the difference between the cost and the selling price of the closing stocks will be automatically adjusted.

ILLUSTRATION—

Messrs. J. Foster & Co. have a Head Office which acts as a distributing centre to their two Branches, where all Sales are made. All Purchases are made by the Head Office, and goods are charged out to the branches at Selling price. All expenses are paid by the Head Office, where the books are kept, except the Sales Ledgers, which are kept at the Branches. The Head Office, however, keeps Total Debtors Accounts in respect of these. On taking Stock at Branch A. at selling price, it was found that the actual Stock was short by £12, compared with the balance of the Stock Account. In the same way the actual Stock at Branch B. was greater by £7 than the balance on their Stock Account. It was decided to write off these differences.

From the particulars given, write up the Branch Accounts in the Head Office Books, and prepare Trading and Profit and Loss Accounts for the year ending 31st December, 1919, and Balance Sheet as at that date.

	Head Office.	Branch A.	Branch B.
	£ s. d.	£ s. d.	£ s. d.
Stock at 1st Jan. at Selling Price ..		2,000 0 0	1,400 0 0
Goods sent to Branches ..		15,000 0 0	10,000 0 0
Net Credit Sales ..		9,820 0 0	6,390 0 0
Cash Sales ..		5,150 0 0	3,321 0 0
Goods Returned to Head Office ..		200 0 0	120 0 0
Allowances off Selling Price ..		118 0 0	76 0 0
Debtors at 1st Jan. ..		750 0 0	540 0 0
Cash received from Debtors ..		9,615 0 0	6,192 0 0
Discounts allowed to Debtors ..		160 0 0	107 0 0
Bad Debts ..		105 0 0	41 0 0
Stock at 1st Jan., at Cost, at Head Office and Branches ..	7,600 0 0		
Ditto 31st December ..	6,900 0 0		
Purchases ..	13,621 0 0		
Salaries ..	1,020 0 0	620 0 0	490 0 0
Trade Expenses ..	420 0 0	115 0 0	76 0 0
Rent, Rates and Taxes ..	349 0 0	325 0 0	190 0 0
Depreciation ..	650 0 0		
Discounts Received ..	264 0 0		
Creditors ..	2,432 0 0		
J. Foster, Capital Account ..	14,942 0 0		
,, Drawing Account ..	5,140 0 0		
Leasehold Premises ..	5,200 0 0		
Fixtures and Fittings ..	3,120 0 0		
Cash at Bank ..	1,640 0 0		
,, in Hand ..	22 0 0	18 0 0	10 0 0

Dr. STOCK ACCOUNT, BRANCH A. *Cr.*

		£ s. d.			£ s. d.
1919.			1919.		
Jan. 1	To Balance—Stock ..	2,000 0 0	Dec. 31	By Net Credit Sales ..	9,820 0 0
Dec. 31	,, Goods from Head Office	15,000 0 0		,, Cash Sales ..	5,150 0 0
				,, Returns to Head Office	200 0 0
				,, Allowances off Selling Price ..	118 0 0
				,, Difference in Stock ..	12 0 0
				,, Balance—Stock ..	1,700 0 0
		£17,000 0 0			£17,000 0 0
1920.					
Jan. 1	To Balance—Stock ..	£1,700 0 0			

Dr. STOCK ACCOUNT, BRANCH B. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Jan. 1	To Balance—Stock	1,400	0	0	Dec. 31	By Net Credit Sales ..	6,390	0	0
Dec. 31	" Goods from Head Office	10,000	0	0		" Cash Sales	3,321	0	0
	" Difference in Stock ..	7	0	0		" Returns to Head Office	120	0	0
						" Allowances off Selling Price	76	0	0
						" Balance—Stock ..	1,500	0	0
		£11,407	0	0			£11,407	0	0
1920.									
Jan. 1	To Balance—Stock	£1,500	0	0					

Dr. TOTAL DEBTORS ACCOUNT, BRANCH A. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Jan. 1	To Balance	750	0	0	Dec. 31	By Cash	9,615	0	0
Dec. 31	" Net Credit Sales.. ..	9,820	0	0		" Discounts	160	0	0
						" Bad Debts	105	0	0
						" Balance	690	0	0
		£10,570	0	0			£10,570	0	0
1920.									
Jan. 1	To Balance	£690	0	0					

Dr. TOTAL DEBTORS ACCOUNT, BRANCH B. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Jan. 1	To Balance	540	0	0	Dec. 31	By Cash	6,192	0	0
Dec. 31	" Net Credit Sales.. ..	6,390	0	0		" Discounts	107	0	0
						" Bad Debts	41	0	0
						" Balance	590	0	0
		£6,930	0	0			£6,930	0	0
1920.									
Jan. 1	To Balance	£590	0	0					

Dr. GOODS SENT TO BRANCHES ACCOUNT, A. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Dec. 31	To Returns from Branch ..	200	0	0	Jan. 1	By Balance—Stock Suspense	2,000	0	0
	" Allowances off Selling Price	118	0	0	Dec. 31	" Goods to Branch ..	15,000	0	0
	" Difference in Stock ..	12	0	0					
	" Transfer to Sales Account	14,970	0	0					
	" Balance—Stock Suspense	1,700	0	0					
		£17,000	0	0			£17,000	0	0
					1920.				
					Jan. 1	By Balance—Stock Suspense	£1,700	0	0

Dr. GOODS SENT TO BRANCHES ACCOUNT, B. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Dec. 31	To Returns from Branch ..	120	0	0	Jan. 1	By Balance—Stock Suspense	1,400	0	0
	" Allowances off Selling Price	76	0	0	Dec. 31	" Goods to Branch ..	10,000	0	0
	" Transfer to Sales Account	9,711	0	0		" Difference in Stock ..	7	0	0
	" Balance—Stock Suspense	1,500	0	0			£11,407	0	0
		£11,407	0	0					
					1920.				
					Jan. 1	By Balance—Stock Suspense	£1,500	0	0

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 1919. *Cr.*

1919.		£ s. d.	£ s. d.	1919.		£ s. d.	£ s. d.
Jan. 1	To Stock		7,600 0 0	Dec. 31	By Sales—		
Dec 31	„ Purchases ..		13,621 0 0		Branch A. ..	14,970 0 0	
	„ Gross Profit ..		10,360 0 0		Branch B. ..	9,711 0 0	
							24,681 0 0
					„ Stock		6,900 0 0
			£31,581 0 0				£31,581 0 0
	To Salaries—				By Gross Profit ..		10,360 0 0
	Head Office ..	1,020 0 0			„ Discounts Received		264 0 0
	Branch A. ..	620 0 0					
	Branch B. ..	490 0 0					
			2,130 0 0				
	„ Trade Expenses:						
	Head Office ..	420 0 0					
	Branch A. ..	115 0 0					
	Branch B. ..	76 0 0					
			611 0 0				
	„ Rent, Rates and Taxes:						
	Head Office ..	349 0 0					
	Branch A. ..	325 0 0					
	Branch B. ..	190 0 0					
			864 0 0				
	„ Discounts Allowed:						
	Branch A. ..	160 0 0					
	Branch B. ..	107 0 0					
			267 0 0				
	„ Bad Debts:						
	Branch A. ..	105 0 0					
	Branch B. ..	41 0 0					
			146 0 0				
	„ Depreciation ..		650 0 0				
	„ Balance, being Net Profit carried to Capital Account.. ..		5,956 0 0				
			£10,624 0 0				£10,624 0 0

Dr. BALANCE SHEET, 31ST DECEMBER, 1919. *Cr.*

	£ s. d.	£ s. d.			£ s. d.	£ s. d.
To Sundry Creditors ..		2,432 0 0	By Leasehold Premises ..			5,200 0 0
„ J.Foster,Capital Account, balance at 1st Jan., 1919	14,942 0 0		„ Fixtures and Fittings ..			3,120 0 0
Add Profit	5,956 0 0		„ Stock			6,900 0 0
	20,898 0 0		„ Sundry Debtors—			
Less Drawings ..	5,140 0 0		Branch A.		690 0 0	
		15,758 0 0	Branch B.		590 0 0	
						1,280 0 0
			„ Cash—			
			At Bank		1,640 0 0	
			In Hand—			
			Head Office	£22 0 0		
			Branch A.	18 0 0		
			Branch B.	10 0 0		
					50 0 0	
						1,690 0 0
		£18,190 0 0				£18,190 0 0

(b) Goods charged to Branches at cost price.

In many kinds of businesses it is impracticable to work on the method just described, either because the stock is perishable, or is sold at varying prices according to the quantities taken by the purchasers.

In most cases of this kind the goods will be charged out at cost. As a result, it will not be possible in the Head Office Branch Ledger to keep a Goods Account which can be reconciled by including the closing stock, but on the other hand, all materials will be found for the preparation of a proper Trading Account for the Branch, the opening and closing stocks being taken at cost price, and the goods charged out being also at cost price. The cash and credit sales will be ascertained in a similar manner to that described under the other system, as also will all the other items.

Although the exact result of the trading can be ascertained, it cannot be contended that such an absolute check is afforded by this system as by the former, and consequently it may be advantageous to supplement it by a statistical stock record compiled monthly in the following manner :—

The opening stock will be taken, and to it added the purchases. From the total thus arrived at will be deducted the gross sales; the gross profit estimated at the average rate will be added, and the result will then represent the estimated stock on hand. By a comparison of these monthly figures it can be seen whether the stock fluctuates, and if there is any reason to suspect any irregularity, the actual stock can be taken without notice being afforded to the manager, and it can then be seen what justification there is for the suspicion. It must be remembered, however, that this arrangement forms no part of the double entry book-keeping, and is merely in the nature of a periodical estimate.

ILLUSTRATION—

BRANCH A. MONTHLY STOCK ACCOUNTS—January to June.

	Jan.	Feb.	Mar.	April.	May.	June.
	£	£	£			
Opening Stock	1,400	1,225	1,175			
Add Purchases	200	250	350			
	1,600	1,475	1,525			
Less Sales	500	400	420			
	1,100	1,075	1,105			
Add Gross Profit 25 % on Sales..	125	100	105			
Estimated Closing Stock	£1,225	£1,175	£1,210			

In cases where credit sales at the branches are at all numerous, it is advisable for Total Debtors Accounts to be kept in respect thereof at the Head Office; in other cases where the credit is short and the amount outstanding at any time not very large, such accounts are not kept, but the outstanding debtors are brought into the accounts at the end of each period in the same manner as Stock.

ILLUSTRATION—

Goods are charged out from the Head Office of a Company to its Branches at cost price. Cash received at the Branches is paid into the Head Office daily. From the following particulars, prepare Profit and Loss Account of the X. Branch for the year ending 31st December, 1919:—

	£	s.	d.
Goods sent to Branch, less Returns.. ..	4,070	0	0
Stock 1st January, 1919	690	0	0
Cash received from Branch	6,200	0	0
Stock 31st December, 1919	740	0	0
Debtors 1st January, 1919	75	0	0
Debtors 31st December, 1919	89	0	0
Rent, Rates and Taxes	160	0	0
Wages and Sundry Expenses..	340	0	0

Dr. X. BRANCH PROFIT AND LOSS ACCOUNT *Cr.*

FOR YEAR ENDING 31ST DECEMBER, 1919.

			£ s. d.				£ s. d.
1919.				1919.			
Jan. 1	To Stock ..	£690 0 0		Dec. 31	By Cash		6,200 0 0
	" Debtors ..	75 0 0			" Stock ..	£740 0 0	
			765 0 0		" Debtors	89 0 0	
Dec. 31	" Goods from H.O. ..		4,070 0 0				829 0 0
	" Rent, Rates and Taxes..		160 0 0				
	" Wages and Sundry Expenses..		340 0 0				
	" Net Profit..		1,694 0 0				
			£7,029 0 0				£7,029 0 0
1920.							
Jan. 1	To Balance—						
	Stock ..	£740 0 0					
	Debtors ..	89 0 0					
			£829 0 0				

(c) Goods charged out at cost price plus a percentage.

An alternative method to charging goods out at cost is to charge them out plus a percentage representing the estimated gross profit on the cost (which is distinct from, and must not be confused with, the rate of gross profit on the sales). If this is done, the opening and closing stocks must be taken into account, plus the same percentage, and as a result the Trading Account of the Branch should show little or no

balance one way or the other. If there is a profit or loss of any amount it will be apparent that either there is some error, or the rate of gross profit assumed is not correct. In the case of a loss, attention should also be directed to the possibility of fraud having taken place in connection with either cash or goods, thereby reducing the profit that should have been earned by the Branch in the ordinary way. Under this system the accounts in the Head Office Branch Ledger will be similar to those described under sub-section (*b*). It should be remembered, however, that the closing stocks must be adjusted to cost in the same way as described above under sub-section (*a*).

Under this method it will be possible for the Head Office to compile from their own books not only a Trading Account on the gross principle, but also (by adjusting the percentages on the opening and closing stocks and purchases) an actual Trading Account disclosing the net profit or loss made by the Branch.

ILLUSTRATION—

A Company charges out goods supplied by the Head Office to its Branches at cost, plus 25 per cent. From the following particulars show the Trading Account of the Branch in the Head Office Books, and prepare a Memorandum Trading Account showing the real gross Profits.

	£	s.	d.
Goods sent to Branch, less Returns	11,000	0	0
Sales	10,400	0	0
Stock at commencement	1,500	0	0
Stock at close	2,120	0	0

Dr. BRANCH TRADING ACCOUNT IN HEAD OFFICE BOOKS. *Cr.*

	£	s.	d.		£	s.	d.
To Stock	1,500	0	0	By Sales..	10,400	0	0
„ Goods from Head Office	11,000	0	0	„ Stock	2,120	0	0
„ Gross Profit	20	0	0				
	£12,520	0	0		£12,520	0	0
To Balance—Stock	£2,120	0	0				

Dr. ACTUAL TRADING ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Stock	1,200	0	0	By Sales..	10,400	0	0
„ Goods from Head Office	8,800	0	0	„ Stock	1,696	0	0
„ Gross Profit	2,096	0	0				
	£12,096	0	0		£12,096	0	0

Note to Illustration.

In the Head Office books, if it was desired to show the real profit at the Branch as part of the double entry, the entries would be as follows :—

Dr. BRANCH ADJUSTMENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance Down— % on Closing Stock	424 0 0	By Balance brought forward— % on Opening Stock	300 0 0
„ Profit and Loss Account :— Actual Gross Profit	2,096 0 0	„ Goods sent to Branches Account— % on Goods sent	2,200 0 0
		„ Branch Trading Account—apparent Profit transferred	20 0 0
	£2,520 0 0		£2,520 0 0
		By Balance	£424 0 0

Dr. GOODS SENT TO BRANCHES ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Branch Adjustment Account— % on Goods sent	2,200 0 0	By Goods to Branch	11,000 0 0
„ Trading Account—cost of Goods sent	8,800 0 0		
	£11,000 0 0		£11,000 0 0

The credit balance on the Branch Adjustment Account of £424 would be set off in drawing the Final Accounts against the debit balance of £2,120, which represents Stock at Branch plus 25 per cent., and this Stock would then show in the Balance Sheet at its proper figure of cost, viz., £1,696.

It should be observed that when 25 per cent. is added to the cost, and it is desired to ascertain the cost when only the gross figures are given, 20 per cent. must be deducted only, as 25 per cent. added to the net, is equal to 20 per cent. taken off the gross.

The Actual Trading Account is merely inserted by way of memorandum to prove the correctness of the Actual Gross Profit shown in the Branch Adjustment Account.

§ 5.—Branches where the whole of the detail is recorded in the Branch Books.

In the case of Branches where on account of their distance from the Head Office, or owing to the amount of detail involved, and to the necessity of keeping the permanent record on the spot, it is found necessary to have the whole of the accounts kept at the branch, the following system will apply.

There will be an account in the Branch books called "Head Office Current Account," and in the Head Office books there will be a corresponding account called "Branch Current Account." All remittances of cash to or from the Head Office, and transfers of goods, &c., will be passed through this account, either in detail or in total, at the end of each period. In the Branch books this account can be regarded as representing the capital at the Branch, and consequently if the assets

in the Branch books exceed the liabilities, the Head Office Current Account will necessarily show a credit balance. In the Head Office books the Branch Current Account will, in the same way, show as a debit balance representing the excess of assets over liabilities at the Branch.

At the end of each balancing period, where the Branch makes out a Trading and Profit and Loss Account, the balance of that account will be transferred to the Head Office Account, and the Branch Balance Sheet will then disclose the assets and the liabilities at the Branch, and the balance due to or from the Head Office.

The Head Office on receiving these accounts will incorporate the profit at the Branch by debiting the Branch Current Account and crediting Profit and Loss Account. Assuming no other adjustments are necessary, it will then be found that the balance on the Branch Account in the Head Office books agrees with the balance of the Head Office Account in the Branch books, and consequently Head Office and Branch Balance Sheets can be amalgamated, the various assets and liabilities being added together under their respective headings, while the Current Account Balances, being contras, can be eliminated.

ILLUSTRATION—

The following are Trial Balances of the Head Office and Leeds Branch, respectively, of a business at 31st December, 1919. Prepare amalgamated Balance Sheet, and show the Leeds Current Account in the Head Office books.

	Head Office.	Leeds.
DEBIT BALANCES.	£ s. d.	£ s. d.
Goodwill	5,000 0 0	
Stock	6,500 0 0	3,200 0 0
Debtors	7,300 0 0	4,100 0 0
Cash at Bank	2,100 0 0	520 0 0
Plant and Machinery	4,300 0 0	1,700 0 0
Leeds Current Account 1st Jan., 1919	6.380 0 0	
Goods sent to Leeds	1,500 0 0	
Cash sent to London		2,000 0 0
	£33,080 0 0	£11,520 0 0
CREDIT BALANCES.	£ s. d.	£ s. d.
Share Capital:—21,000 Shares of £1 each, fully paid	21,000 0 0	
P. and L. Account—Balance at 1st Jan., 1919	530 0 0	
,, ,, Profit for year	6,200 0 0	1,900 0 0
Creditors	3,100 0 0	1,600 0 0
Reserve for Bad Debts	250 0 0	140 0 0
Goods received from London		1,500 0 0
Cash received from Leeds	2,000 0 0	
Head Office Current Account 1st Jan., 1919		6,380 0 0
	£33,080 0 0	£11,520 0 0

Dr. LEEDS CURRENT ACCOUNT IN HEAD OFFICE BOOKS. *Cr.*

		£ s. d.			£ s. d.
1919.			1919.		
Jan. 1	To Balance	6,380 0 0	Dec. 31	By Cash	2,000 0 0
Dec. 31	,, Goods	1,500 0 0		,, Balance	7,780 0 0
	,, Profit and Loss Account :— Profit	1,900 0 0			
		£9,780 0 0			£9,780 0 0
1920.					
Jan. 1	To Balance	£7,780 0 0			

Dr. BALANCE SHEET, 31ST DECEMBER, 1919. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Share Capital :— 21,000 Shares of £1 each, fully paid		21,000 0 0	By Goodwill		5,000 0 0
,, Sundry Creditors :—			,, Plant and Machinery :—		
Head Office	3,100 0 0		Head Office	4,300 0 0	
Leeds	1,600 0 0		Leeds	1,700 0 0	
		4,700 0 0			6,000 0 0
,, Profit & Loss Account :—			,, Stock :—		
Balance at 1st Jan. ..	530 0 0		Head Office	6,500 0 0	
Add Profit for year ..	8,100 0 0		Leeds	3,200 0 0	
		8,630 0 0			9,700 0 0
			,, Sundry Debtors :—		
			Head Office £7,300 0 0 *Less* Reserve 250 0 0	7,050 0 0	
			Leeds .. 4,100 0 0 *Less* Reserve 140 0 0	3,960 0 0	
					11,010 0 0
			Cash :—		
			Head Office	2,100 0 0	
			Leeds	520 0 0	
					2,620 0 0
		£34,330 0 0			£34,330 0 0

It frequently happens that at the date of the Balance Sheet, items either of cash or of stock may be in transit between the Head Office and the Branches, or between one Branch and another Branch. In such a case it will be apparent that whereas for example the Head Office will have debited the Branch with cash sent on the last day of the year, the Branch will not have credited the Head Office, owing to the fact that the item of cash was not received till the beginning of the new year. Adjustments must be made in respect of such items.

ILLUSTRATION—

A Company has its Head Office in London, and Branches at Liverpool and Sheffield. The following are the separate Balance Sheets on 31st December, 1919.

Dr. LONDON. *Cr.*

	£ s. d.		£ s. d.
To Share Capital :— 100,000 Shares of £1 each, fully paid	100,000 0 0	By Stock	36,250 0 0
,, Creditors	6,000 0 0	,, Debtors	42,500 0 0
,, Liverpool Current Account (after debiting £100 Cash remitted on 31st December, 1919, and received at Liverpool on 1st Jan., 1920)	390 0 0	,, Sheffield Current Account (after debiting £300 Stock returned to Sheffield on 31st December, 1919, and received at Sheffield on 3rd Jan., 1920)	27,140 0 0
,, Profit and Loss Account :— Balance at 1st Jan. .. £1,750 0 0 *Add* Profit for year .. 9,250 0 0	11,000 0 0	,, Cash at Bank	11,500 0 0
	£117,390 0 0		£117,390 0 0

Dr. LIVERPOOL. *Cr.*

	£ s. d.		£ s. d.
To Creditors	1,750 0 0	By Stock	3,505 0 0
„ Bank Overdraft	4,000 0 0	„ Debtors	1,750 0 0
„ Sheffield Current Account (after debiting £150 Stock sent to Sheffield 31st Dec., 1919, and received at Sheffield on 3rd Jan., 1920)	70 0 0	„ Head Office Current Account (after debiting £75 Stock sent to London 31st Dec., 1919, and received at London on 2nd Jan., 1920) ..	565 0 0
	£5,820 0 0		£5,820 0 0

Dr. SHEFFIELD. *Cr.*

	£ s. d.		£ s. d.
To Creditors	5,050 0 0	By Buildings, Plant and Machinery..	20,470 0 0
„ Head Office Current Account (after debiting £500 cash sent to Head Office 31st Dec., 1919, and received at London 1st Jan., 1920) ..	26,340 0 0	„ Stock	5,200 0 0
		„ Debtors	3,250 0 0
		„ Liverpool Current Account ..	220 0 0
		„ Cash at Bank	2,250 0 0
	£31,390 0 0		£31,390 0 0

The Profit and Loss balances at the Branches have been adjusted.

Make the further adjustments necessary, and prepare aggregate Balance Sheet as at 31st December, 1919.

HEAD OFFICE BOOKS.

Dr. LIVERPOOL CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance	465 0 0	By Balance	390 0 0
		„ Stock in transit	75 0 0
	£465 0 0		£465 0 0
		By Balance	£465 0 0

Dr. SHEFFIELD CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance	27,140 0 0	By Cash in transit	500 0 0
		„ Balance	26,640 0 0
	£27,140 0 0		£27,140 0 0
To Balance	£26,640 0 0		

Dr. CASH IN TRANSIT. *Cr.*

	£ s. d.		
To Sheffield Current Account	500 0 0		

Dr. STOCK IN TRANSIT. *Cr.*

	£ s. d.		
To Liverpool Current Account ..	75 0 0		

LIVERPOOL BOOKS.

SHEFFIELD CURRENT ACCOUNT.

Dr.		Cr.	
			£ s. d.
		By Balance	70 0 0

CASH IN TRANSIT.

Dr.		Cr.	
	£ s. d.		£ s. d.
To Head Office Current Account ..	100 0 0	By Balance	100 0 0
	£100 0 0		£100 0 0
To Balance	£100 0 0		

HEAD OFFICE CURRENT ACCOUNT.

Dr.		Cr.	
	£ s. d.		£ s. d.
To Balance..	565 0 0	By Cash in transit	100 0 0
		,, Balance	465 0 0
	£565 0 0		£565 0 0
To Balance..	£465 0 0		

SHEFFIELD BOOKS.

HEAD OFFICE CURRENT ACCOUNT.

Dr.		Cr.	
	£ s. d.		£ s. d.
To Balance..	26,640 0 0	By Balance	26,640 0 0
		,, Stock in transit	300 0 0
	£26,640 0 0		£26,640 0 0
		By Balance	£26,640 0 0

STOCK IN TRANSIT.

Dr.		Cr.	
	£ s. d.		£ s. d.
To Liverpool Current Account	150 0 0	By Balance	450 0 0
,, Head Office Current Account ...	300 0 0		
	£450 0 0		£450 0 0
To Balance	£450 0 0		

LIVERPOOL CURRENT ACCOUNT.

Dr.		Cr.	
	£ s. d.		£ s. d.
To Balance	220 0 0	By Stock in transit	150 0 0
		,, Balance	70 0 0
	£220 0 0		£220 0 0
To Balance	£70 0 0		

Dr. BALANCE SHEET, 31st December, 1919. *Cr.*

	£ s. d.	£ s. d.
To Share Capital :—		
100,000 Shares of £1 each, fully paid		100,000 0 0
,, Creditors :—		
London	6,000 0 0	
Liverpool	1,750 0 0	
Sheffield	5,050 0 0	
		12,800 0 0
,, Bank Overdraft :—		
Liverpool		4,000 0 0
,, Profit and Loss Account :—		
Balance at 1st Jan.	1,750 0 0	
Add Profit for year	9,250 0 0	
		11,000 0 0
		£127,800 0 0

		£ s. d.	£ s. d.
By Buildings, Plant and Machinery			20,470 0 0
,, Stock :—			
London	£36,250 0 0		
Do. in transit ..	75 0 0		
		36,325 0 0	
Liverpool		3,505 0 0	
Sheffield	5,200 0 0		
Do. in transit	450 0 0		
		5,650 0 0	
			45,480 0 0
,, Debtors :—			
London		42,500 0 0	
Liverpool		1,750 0 0	
Sheffield		3,250 0 0	
			47,500 0 0
,, Cash at Bank :—			
London	11,500 0 0		
Do. in transit	500 0 0		
		12,000 0 0	
Sheffield		2,250 0 0	
Liverpool, in transit		100 0 0	
			14,350 0 0
			£127,800 0 0

In some cases it is found convenient to keep the record of the fixed assets, such as land, buildings, plant and machinery, &c., in the Head Office books rather than in the Branch books. If it is desired to charge the Branch with depreciation on these assets, the Head Office Account in the Branch books will be credited with the amount thereof, and Depreciation Account debited. The assets being in the Head Office books, the Head Office will make an entry crediting the Asset Accounts and debiting the Branch Current Account with the amount of depreciation. Should, however, the depreciation not be charged to the Branch, but dealt with in the general accounts, no such entry will be necessary.

In combining the final accounts of a business where there are only one or two Branches, it is frequently found convenient to show the accounts in columnar form, a column being provided for the Head Office, for each Branch, and for the Total Figures. When this is done care should be taken to see that the amount of sales from the Head Office to Branches, and the amount of purchases by Branches from Head Office, together with any similar transactions as between the Branches themselves, should be eliminated from the total column, otherwise the total figures will be unduly swollen by the inclusion of transactions within the business itself, which are merely departmental, and have no relation to the actual turnover. If the Balance Sheet is in columnar form, it will be necessary to include the balances of the Current Accounts between the Head Office and Branches in the respective columns to which they relate, in order that the totals of these columns should agree, but these Current Account Balances should not be extended, since they represent the net assets or liabilities at the Branches, which have already been taken into account.

When inter-Branch transactions occur, each Branch must have a current account for the Branch with which the transactions are effected, and these accounts must be agreed at the end of each period in a similar manner to the current accounts between the Head Office and Branches.

ILLUSTRATION—

A., B., and C. are partners in a firm having separate businesses in London, Edinburgh, and Dublin. A. manages in London, and receives two-thirds of the profits there, the balance being shared equally between B. and C. B. manages in Edinburgh, and receives half of the profits there, the balance being shared equally between A. and C. C. manages in Dublin, and receives one-third of the profits there, the balance being shared equally between A. and B. The Capital Account of each partner is kept in the books of his House. Each House from time to time buys from and sells to the other Houses at agreed rates sufficient to give the selling House a reasonable profit on the handling of the goods, and such transactions have been adjusted through the Current Accounts.

From the following Trial Balances of the respective Houses, prepare Columnar Trading and Profit and Loss Account for the year ending 31st December, 1919, and Columnar Balance Sheet as at that date. It is agreed that the Special Legal Expenses incurred in London shall be borne by the three Houses equally. Show the Current Accounts and Partners' Capital Accounts in the books of each House. Interest on Capital to be charged at 5 per cent. per annum, but no interest on drawings. Provide depreciation on plant and machinery at 10 per cent. per annum. Closing Stocks : London, £14,000 : Edinburgh, £11,500 ; Dublin, £7,500.

Dr. TRIAL BALANCES, 31st December, 1919. *Cr.*

Debit Balances.	London.			Edinburgh.			Dublin.		
	£	s.	d.	£	s.	d.	£	s.	d.
Stock 1st January ..	15,000	0	0	10,000	0	0	7,000	0	0
Purchases	40,000	0	0	25,000	0	0	12,000	0	0
Do. Internal ..	1,000	0	0	4,000	0	0	6,000	0	0
Wages	5,000	0	0	3,500	0	0	2,500	0	0
Trade Expenses ..	4,900	0	0	2,900	0	0	1,550	0	0
Special Legal Expenses	600	0	0						
Plant	7,000	0	0	4,000	0	0	3,000	0	0
Debtors	17,800	0	0	8,600	0	0	6,550	0	0
Current Accounts :—									
Edinburgh ..	3,000	0	0				1,000	0	0
Dublin	2,000	0	0						
Cash	2,500	0	0	1,500	0	0	500	0	0
Drawing Accounts :—									
A.	2,000	0	0						
B.				1,000	0	0			
C.							1,000	0	0
	£100,800	0	0	£60,500	0	0	£41,100	0	0

Credit Balances.	London.			Edinburgh.			Dublin.		
	£	s.	d.	£	s.	d.	£	s.	d.
Sales	57,000	0	0	39,000	0	0	25,000	0	0
Do. Internal ..	7,000	0	0	2,500	0	0	1,500	0	0
Creditors	16,800	0	0	7,000	0	0	7,600	0	0
Current Accounts :—									
London.. ..				3,000	0	0	2,000	0	0
Dublin				1,000	0	0			
Capital Accounts :—									
A.	20,000	0	0						
B.				8,000	0	0			
C.							5,000	0	0
	£100,800	0	0	£60,500	0	0	£41,100	0	0

GENERAL TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 1919. *Cr.*

	London.	Edinburgh.	Dublin.	TOTAL.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
To Stock 1st Jan... ..	15,000 0 0	10,000 0 0	7,000 0 0	32,000 0 0
" Purchases	40,000 0 0	25,000 0 0	12,000 0 0	77,000 0 0
" Do. Internal ..	1,000 0 0	4,000 0 0	6,000 0 0	—
" Wages	5,000 0 0	3,500 0 0	2,500 0 0	11,000 0 0
" Gross Profit .. .	17,000 0 0	10,500 0 0	6,500 0 0	34,000 0 0
	£78,000 0 0	£53,000 0 0	£34,000 0 0	£154,000 0 0
To Trade Expenses ..	4,900 0 0	2,900 0 0	1,550 0 0	9,350 0 0
" Special Legal Expenses	200 0 0	200 0 0	200 0 0	600 0 0
" Depreciation	700 0 0	400 0 0	300 0 0	1,400 0 0
" Interest on Capital ..	1,000 0 0	400 0 0	250 0 0	1,650 0 0
" Net Profit	10,200 0 0	6,600 0 0	4,200 0 0	21,000 0 0
	£17,000 0 0	£10,500 0 0	£6,500 0 0	£34,000 0 0
To A.	6,800 0 0	1,650 0 0	1,400 0 0	9,850 0 0
" B.	1,700 0 0	3,300 0 0	1,400 0 0	6,400 0 0
" C.	1,700 0 0	1,650 0 0	1,400 0 0	4,750 0 0
	£10,200 0 0	£6,600 0 0	£4,200 0 0	£21,000 0 0

	London.	Edinburgh.	Dublin.	TOTAL.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
By Sales	57,000 0 0	39,000 0 0	25,000 0 0	121,000 0 0
" Do. Internal ..	7,000 0 0	2,500 0 0	1,500 0 0	—
" Stock, 31st December	14,000 0 0	11,500 0 0	7,500 0 0	33,000 0 0
	£78,000 0 0	£53,000 0 0	£34,000 0 0	£154,000 0 0
By Gross Profit	17,000 0 0	10,500 0 0	6,500 0 0	34,000 0 0
	£17,000 0 0	£10,500 0 0	£6,500 0 0	£34,000 0 0
By Balance	10,200 0 0	6,600 0 0	4,200 0 0	21,000 0 0
	£10,200 0 0	£6,600 0 0	£4,200 0 0	£21,000 0 0

LONDON BOOKS.

A. CAPITAL ACCOUNT.

Dr.	£ s. d.		*Cr.*	£ s. d.
To Drawings	2,000 0 0		By Balance	20,000 0 0
„ Balance	28,850 0 0		„ Interest	1,000 0 0
			„ Profit and Loss Account :—	
			London Profit	6,800 0 0
			Edinburgh Profit	1,650 0 0
			Dublin Profit	1,400 0 0
	£30,850 0 0			£30,850 0 0
			By Balance	£28,850 0 0

EDINBURGH CURRENT ACCOUNT.

Dr.	£ s. d.		*Cr.*	£ s. d.
To Balance	3,000 0 0		By Profit and Loss Account :—	
„ A., Edinburgh Profit	1,650 0 0		London Profit B.	1,700 0 0
„ Law Charges	200 0 0		„ Balance	3,150 0 0
	£4,850 0 0			£4,850 0 0
To Balance	£3,150 0 0			

DUBLIN CURRENT ACCOUNT.

Dr.	£ s. d.		*Cr.*	£ s. d.
To Balance	2,000 0 0		By Profit and Loss Account :—	
„ A., Dublin Profit	1,400 0 0		London Profit C.	1,700 0 0
„ Law Charges	200 0 0		„ Balance	1,900 0 0
	£3,600 0 0			£3,600 0 0
To Balance	£1,900 0 0			

EDINBURGH BOOKS.

B. CAPITAL ACCOUNT.

Dr.	£ s. d.		*Cr.*	£ s. d.
To Drawings	1,000 0 0		By Balance	8,000 0 0
„ Balance	13,800 0 0		„ Interest	400 0 0
			„ Profit and Loss Account :—	
			Edinburgh Profit	3,300 0 0
			London Profit	1,700 0 0
			Dublin Profit	1,400 0 0
	£14,800 0 0			£14,800 0 0
			By Balance	£13,800 0 0

Dr. LONDON CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To B., London Profit	1,700 0 0	By Balance	3,000 0 0
„ Balance	3,150 0 0	„ Law Charges	200 0 0
		„ Profit and Loss Account :— Edinburgh Profit, A.	1,650 0 0
	£4,850 0 0		£4,850 0 0
		By Balance	£3,150 0 0

Dr. DUBLIN CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To B., Dublin Profit	1,400 0 0	By Balance	1,000 0 0
„ Balance	1,250 0 0	„ Profit and Loss Account :— Edinburgh Profit, C.	1,650 0 0
	£2,650 0 0		£2,650 0 0
		By Balance	£1,250 0 0

DUBLIN BOOKS.

Dr. C. CAPITAL ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Drawings	1,000 0 0	By Balance	5,000 0 0
„ Balance	9,000 0 0	„ Interest	250 0 0
		„ Profit and Loss Account :—	
		Dublin Profit	1,400 0 0
		London Profit	1,700 0 0
		Edinburgh Profit	1,650 0 0
	£10,000 0 0		£10,000 0 0
		By Balance	£9,000 0 0

Dr. LONDON CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To C., London Profit	1,700 0 0	By Balance	2,000 0 0
„ Balance	1,900 0 0	„ Law Charges	200 0 0
		„ Profit and Loss Account :— Dublin Profit, A.	1,400 0 0
	£3,600 0 0		£3,600 0 0
		By Balance	£1,900 0 0

Dr. EDINBURGH CURRENT ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Balance	1,000 0 0	By Profit and Loss Account :—	
„ C., Edinburgh Profit	1,650 0 0	„ Dublin Profit, B.	1,400 0 0
		„ Balance	1,250 0 0
	£2,650 0 0		£2,650 0 0
To Balance	£1,250 0 0		

Dr. COLUMNAR BALANCE SHEET, 31st December, 1919. Cr.

	London.	Edinburgh.	Dublin	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
To Creditors ..	16,800 0 0	7,000 0 0	7,600 0 0	31,400 0 0
" Current A/cs.:				
London ..		3,150 0 0	1,900 0 0	
Dublin ..		1,250 0 0		
" Capital A/cs.:				
A.	28,850 0 0			28,850 0 0
B.		13,800 0 0		13,800 0 0
C.			9,000 0 0	9,000 0 0
	£45,650 0 0	£25,200 0 0	£18,500 0 0	£83,050 0 0

	London.	Edinburgh.	Dublin.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
By Plant ..	6,300 0 0	3,600 0 0	2,700 0 0	12,600 0 0
" Stock ..	14,000 0 0	11,500 0 0	7,500 0 0	33,000 0 0
" Debtors ..	17,800 0 0	8,600 0 0	6,550 0 0	32,950 0 0
" Current A/cs.:				
Edinburgh	3,150 0 0		1,250 0 0	
Dublin ..	1,900 0 0			
" Cash.. ..	2,500 0 0	1,500 0 0	500 0 0	4,500 0 0
	£45,650 0 0	£25,200 0 0	£18,500 0 0	£83,050 0 0

§ 6.—Foreign Exchange.

By "Exchange" is meant the conversion of moneys of one country into the terms of another. The market rate between two countries is fixed by the actual supply and demand for Bills of Exchange, and in this country the current rates, known as the "Course of Exchange," are published by the Bill Brokers from the London Royal Exchange twice weekly.

The necessity for converting sterling into foreign currency, and *vice versâ,* arises where a transaction is entered into between two persons living in different countries. For instance, a London merchant may receive goods from a German merchant, the same being invoiced to him in German currency, which would probably be converted into sterling at a fixed average rate. In order to settle the account he will buy in the London market for sterling a Bill on Germany for the requisite number of marks.

If the rate of exchange is in favour of this country, *i.e.* if there are more Bills available than are in demand, a sovereign will purchase a greater number of marks than would otherwise be the case, and a profit on exchange will result. The converse is the case where the rate of exchange is against this country.*

* For further information on this subject the reader is referred to *An Outline of the Money Market*, by Ernest Evan Spicer, F.C.A. (2nd Edition).

ILLUSTRATION—

A. in London owes B. & Company in Paris 5,050 francs. B. & Company's account in A.'s Ledger shows a credit balance of £100, A. having converted the francs into sterling at the rate of 50·50. A. desires to pay B. & Company, and for that purpose purchases in London a draft on Paris for 5,050 francs, for which he pays at the rate of 50·56.

Make the entries in A.'s Books, posting up and balancing off B. & Co.'s Account.

A.'S BOOKS.

Dr. B. & CO.'S ACCOUNT. *Cr.*

	Francs.	Sterling. £ s. d.		Francs.	Sterling. £ s. d.
To Cash for Draft.. ..	5050·00	99 17 8	By Balance	5050·00	100 0 0
„ Profit on Exchange ..		2 4			
	5050·00	£100 0 0		5050·00	£100 0 0

§ 7.—Foreign Branches.

In these cases when the Branches are of a trading or manufacturing nature, it will be found necessary to keep the whole of the detail accounts at the Branch, and consequently the same system can be applied as that described in § 5.

Where the Branch is situated in a British Colony adopting the British coinage system, no difficulty will arise in connection with the question of exchange, since all accounts will be in sterling. When, however, the currency of the Branch accounts is not sterling, the problem of exchange at once presents itself, and requires to be dealt with.

(a) Branches working on a Fixed Rate of Exchange.

Where the rate of exchange is so stable that fluctuations can be disregarded, it is usual to work on a fixed rate, and this is frequently done in connection with the United States of America and France, to mention two examples. As a result the only difference on exchange will arise in connection with the remittances of cash to and from the Branch. In the Head Office books the Branch Current Accounts should be ruled with two columns, currency and sterling, the former being a memorandum column only. The remittances should be entered in these columns as and when made. At the end of the period when the Branch remits its accounts, including a copy of its Head Office Account, every item will be converted at the fixed rate of exchange, with the exception of the

remittances. The difference between the amount of these remittances, converted at the actual and fixed rate respectively, will represent profit or loss on exchange, and will be debited or credited to the Branch Office Account in the Head Office books, and credited or debited to Difference on Exchange Account. The conversion of the Head Office balance in the Branch books at the fixed rate will then equal the sterling balance of the Branch Account in the Head Office books, and the accounts can be amalgamated in the usual manner.

ILLUSTRATION—

The following are the final balances of a Branch in Paris at 31st December, 1919. Convert at the fixed rate of exchange of Fcs.50.50 to the £. The cash remitted from Paris appeared in the London books as £98 6s. 6d. Make the necessary adjustments in the London books by Journal entry, and show the Branch Current Account in the London books and the London Current Account in the Branch books.

FINAL BALANCES, 31st December, 1919.

	Fcs.	Fcs.
Cash at Bank	12,091.44	
Cash in Hand	1,141.06	
Stock 31st December, 1919	56,091.76	
Plant	51,353.22	
Office Furniture	4,899.98	
Reserve for Bad Debts		8,442.66
Land and Premises	120,000.00	
Debtors	87,354.42	
Profit and Loss Account—Profit for year		10,319.04
Creditors		113,864.06
Remittances to London	5,000.00	
Head Office Account—Balance at 1st January, 1919 ..		205,306.12
	Fcs.337,931.88	Fcs.337,931.88

Rule for Converting Currency into Sterling when the rate is per £.

Divide the currency figure by the rate of exchange, and the quotient will be £ sterling; the decimal remainder must then be converted into shillings and pence.

FINAL BALANCES, 31st December, 1919, converted at Fcs.50.50 per £.

	£ s. d.	£ s. d.
Cash at Bank	239 8 8	
Cash in Hand	22 11 11	
Stock 31st December, 1919	1,110 14 6	
Plant	1,016 17 11	
Office Furniture	97 0 7	
Reserve for Bad Debts		167 3 7
Land and Premises	2,376 4 9	
Debtors	1,729 15 10	
Profit and Loss Account—Profit for year		204 6 9
Creditors		2,254 14 8
Remittances to London (actual rate)	98 6 6	
Head Office Account—Balance at 1st January, 1919 ..		4,065 9 4
Difference in Exchange	13 8	
	£6,691 14 4	£6,691 14 4

LONDON JOURNAL.

		£ s. d.	£ s. d.
1919. Dec. 31	Exchange Account .. .. Dr.	13 8	
	To Paris Current Account		13 8
	(Being difference in Exchange on remittances)		
Dec. 31	Paris Current Account.. .. .. Dr.	204 6 9	
	To Profit and Loss Account		204 6 9
	(Being Fcs.10,319.04 profit for year @ Fcs.50.50 per £)		

LONDON LEDGER.

Dr. PARIS CURRENT ACCOUNT. *Cr.*

		Francs.	Sterling.			Francs.	Sterling.
			£ s. d.				£ s. d.
1919. Jan. 1	To Balance ..	205,306.12	4,065 9 4	1919. Dec. 31	By Remittances ..	5,000.00	98 6 6
Dec. 31	„ P.& L. Account:— Profit for year	10,319 04	204 6 9		„ Difference in Exchange ..		13 8
					„ Balance	210,625.16	4,170 15 11
	Fcs.	215,625.16	£4,269 16 1		Fcs.	215,625.16	£4,269 16 1
1920. Jan. 1	To Balance.. ..	210,625.16	£4,170 15 11				

PARIS LEDGER.

Dr. LONDON CURRENT ACCOUNT. *Cr.*

		Francs.			Francs.
1919. Dec. 31	To Remittances..	5,000.00	1919. Jan. 1	By Balance	205,306.12
	„ Balance	210,625.16	Dec. 31	„ P. & L. Account :— Profit for Year	10,319.04
	Fcs.	215,625.16		Fcs.	215,625.16
			1920. Jan. 1	By Balance	210,625.16

NOTE.—It is not usual to provide memorandum sterling columns in the currency books, though this can be done if desired.

(b) Branches Working on a Fluctuating Rate of Exchange.

Where the exchange is of such a fluctuating nature that it would be incorrect to work on a fixed basis, the accounts of the Branch are usually converted on the following principle :—

(1) Fixed assets at the same rate as before.

(2) Floating assets and liabilities at the rate of the day of the Balance Sheet.

(3) Revenue Balances at the average rate of the period.

(4) Remittances at the actual rate.

Additions to fixed assets should be converted at the average rate ruling during the period, or if special remittances are made for the purpose, at the average rate of such remittances.

If depreciation on these fixed assets is provided for on a percentage basis, the conversion thereof cannot be worked on the average rate for the period, although it is a revenue item, but must be arrived at by way of a percentage on the opening sterling figure, since the depreciation must be converted on the same basis as the asset itself. The reason why fixed assets are converted at the same rate as before, although the exchange may vary, is that such assets remain in the country itself, and are not in the ordinary way subject to conversion into cash in the same manner as floating assets are. At the same time, if the rate of exchange permanently rises, it is in many cases thought prudent to provide a special reserve for such loss on exchange in the case of fixed assets.

The average rate for the conversion of Revenue Balances will be taken either from the average rates published in certain newspapers at regular intervals, or by taking the rate at the first day of each month during the period, adding the rates up and dividing by a number equal to the number of months. As regards goods sent out or received from the Branch, these will be converted at the rate ruling on the day when the goods were despatched by the Branch or received by them as the case may be.

These general rules are subject to modification in certain circumstances, e.g., in connection with Stores Accounts, which it is customary to adjust on a standard basis so that no profit or loss on Exchange is written off in respect of the conversion of the stock of stores in hand at the end of each balancing period.

The Branch Trial Balance will be ruled with two additional sterling columns, a further column being provided for the appropriate rate of exchange, and each item will be converted at its proper rate, with the exception of the opening balance on the Head Office Account, which will be taken at the sterling figure as shown in the last accounts. It is convenient to show the remittances and other items relating to the Head Office separately in the Branch Trial Balance, and to leave the Head Office Current Account at its opening figure until the conversions

have been made, owing to the differing rates of exchange at which the various classes of items must be calculated.

The sterling columns of the Trial Balance will be added up, and the difference thereon will represent the difference on exchange, which will be adjusted through the Branch Office Account in the Head Office Books in the manner previously explained. If the difference is a loss, it should be written off; if a profit, it is advisable to carry the amount forward to the next account, since the fluctuation of the exchange may possibly result in a loss during the succeeding period.

ILLUSTRATION—

The following is the London Trial Balance of the China Trading Company, Limited, at 31st December, 1919:—

	£ s. d.	£ s. d.
Share Capital:—		
Authorized, 50,000 Shares of £1 each—		
Issued, 36,000 ditto fully paid ..		36,000 0 0
Office Expenses	250 0 0	
Directors' Fees	500 0 0	
Sundry Creditors		100 0 0
Salaries	300 0 0	
P. & L. Account—Balance at 1st January, 1919		887 10 6
China Branch Account	36,087 10 6	
Remittances from China		2,750 0 0
Exchange Account—Balance at 1st January, 1919		400 0 0
Cash at Bank	3,000 0 0	
	£40,137 10 6	£40,137 10 6

The China Branch who keep Materials used distinct from Purchases prepare their own Profit and Loss Account, but do not deal with Depreciation. They send over the following Trial Balance at 31st December, 1919:—

	Taels.	Taels.
Cash	12,000	
Stock 31st December, 1919	55,000	
Plant	30,000	
Furniture and Fittings	5,000	
Land and Premises	120,000	
Debtors	80,000	
Creditors		60,000
Remittances to London	20,000	
P. and L. Account:—		
Profit for year		35,000
Head Office Account:—		
Balance at 1st January, 1919		227,000
	322,000	322,000

The original rate of exchange applying to fixed assets is 3s. 6d. per tael; the average rate during the period is 3s. per tael; and the rate on the day of the Balance Sheet is 2s. 6d. per tael.

Convert the Foreign Trial Balance, showing the difference on exchange. Provide depreciation on the Plant and Furniture in China at 10 per cent. per annum, through the London books. Show the Branch Account in the Head Office books and the Head Office Account in the Branch books, and prepare Profit and Loss Account and Balance Sheet of the Company.

CHINA TRIAL BALANCE, 31st December, 1919.

	Rate of Exchange.	Dr. Taels.	Cr. Taels.	Dr. Sterling.	Cr. Sterling.
	s. d.			£ s. d.	£ s. d.
Cash	2 6	12,000		1,500 0 0	
Stock 31st December, 1919	2 6	55,000		6,875 0 0	
Plant	3 6	30,000		5,250 0 0	
Furniture and Fittings..	3 6	5,000		875 0 0	
Land and Premises	3 6	120,000		21,000 0 0	
Debtors	2 6	80,000		10,000 0 0	
Creditors..	2 6		60,000		7,500 0 0
Remittance to London..		20,000		2,750 0 0	
P. & L. Account :— ..					
Profit for year	3 0		35,000		5,250 0 0
Head Office Account :—					
Balance at 1st January, 1919.. ..			227,000		36,087 10 6
Difference in Exchange				587 10 6	
		322,000	322,000	£48,837 10 6	£48,837 10 6

HEAD OFFICE LEDGER.

CHINA BRANCH ACCOUNT.

Dr. *Cr.*

		Taels.	Sterling.			Taels.	Sterling.
1919.			£ s. d.	1919.			£ s. d.
Jan 1	To Balance	227,000	36,087 10 6	Dec. 31	By Remittances ..	20,000	2,750 0 0
Dec. 31	„ P. & L Account :— Profit for year @ 3s.	35,000	5,250 0 0		„ Depreciation @ 3s.6d.	3,500	612 10 0
					„ Exchange Account		587 10 6
					„ Balance	238,500	37,387 10 0
		262,000	£41,337 10 6			262,000	£41,337 10 6
1920.							
Jan. 1	To Balance	238,500	£37,387 10 0				

CHINA LEDGER.

HEAD OFFICE ACCOUNT.

Dr. *Cr.*

		Taels.			Taels.
1919.			1919.		
Dec. 31	To Remittances	20,000	Jan. 1	By Balance	227,000
	„ Plant Account—Depreciation @ 10 %	3,000	Dec. 31	„ P. & L. Account	35,000
	„ Furniture Account — Depreciation at 10 %	500			
	„ Balance	238,500			
		262,000			262,000
			1920.		
			Jan. 1	By Balance	238,500

PROFIT AND LOSS ACCOUNT

for the Year ending 31st December, 1919.

Dr. *Cr.*

	£ s. d.	£ s. d.		£ s. d.
To Head Office Expenses :—			By Profit on Trading	5,250 0 0
Salaries	300 0 0			
Office Expenses.. ..	250 0 0			
Directors' Fees	500 0 0			
		1,050 0 0		
„ Depreciation	.. ..	612 10 0		
„ Loss on Exchange ..	.. ..	187 10 6		
„ Balance, being Profit carried to Balance Sheet ..	.. ..	3,399 19 6		
		£5,250 0 0		£5,250 0 0

Dr. BALANCE SHEET, 31ST DECEMBER, 1919. *Cr.*

		£ s. d.		£ s. d.	£ s. d.
To Share Capital :—			By Land and Premises ..		21,000 0 0
Authorized— 50,000 Shares of £1 each	£50,000 0 0		" Plant	5,250 0 0	
			Less Depreciation 10 %	525 0 0	4,725 0 0
Issued— 36,000 Shares of £1 each, fully paid		36,000 0 0	" Furniture and Fittings ..	875 0 0	
			Less Depreciation 10 %	87 10 0	787 10 0
" Sundry Creditors :—			" Stock		6,875 0 0
In China	7,500 0 0		" Debtors		10,000 0 0
In London	100 0 0	7,600 0 0	" Cash at Bank—		
" Profit and Loss A/c :—			In China	1,500 0 0	
Balance at 1st Jan.	887 10 6		In London	3,000 0 0	4,500 0 0
Add Profit for year	3,399 19 6	4,287 10 0			
		£47,887 10 0			£47,887 10 0

Note to Illustration.

The China Branch will be advised of the amount of depreciation which is to be written off in order that they may make a corresponding entry in their books, thus adjusting their Account with the Head Office to the same figure as the Branch Account in the Head Office books.

Similar instructions will have to be given in all cases where entries affecting the Branch are made in the Head Office books.

It should be observed that the final sterling balance of the China Branch Account in the Head Office books does not represent the conversion of the currency balance at any of the rates given, since it is composed of various assets and liabilities converted at different rates. The sterling balance of the Branch Account must always agree with the sterling figures of the net assets at the Branch concerned.

§ 8.—Foreign Mine Accounts.

In the case of a Mine where the transactions at the Mine are small and mainly of a cash nature, and it is not found necessary to employ a competent book-keeper at the Mine, monthly cash accounts will be submitted by the manager, duly certified by him, and accompanied by vouchers. A Mine Cash Book and Ledger will be kept at the Head Office, ruled for currency, in addition to the Head Office Sterling Books, and the Cash Account entered in such cash book monthly, postings being made therefrom to the ledger, which will contain a Current Account with the Head Office on precisely similar lines to that described in § 6. Sometimes these Mine books are not kept at the Head Office, but the expenditure is analysed from the manager's monthly return, and converted at the proper rate of exchange, an entry being made in the Head Office Sterling Journal, crediting the Mine Account, and debiting the Expenditure

at Mine with the various items. This method, however, is not recommended, inasmuch as it does not constitute a clear and consecutive record of the transactions at the Mine, and necessitates frequent reference to the Mine Returns, which are in many cases indifferently rendered.

In all but the simplest cases this system will be found inadequate, and it will be necessary for a competent book-keeper to be employed at the Mine, where proper books should be kept, comprising a Cash Book, Ledger and Journal, Wages Books and other statistical records. Even where a proper system of books is kept at the Mine (and particularly where no local audit is performed), it is advisable that a duplicate set of Mine Books should be kept at the Head Office in currency, and written up regularly from the Mine Returns. These returns should be made monthly, and duly certified by the Mine manager and book-keeper. It is convenient that the paper on which they are entered should be a facsimile ruling of the books at the Mine, and folioed to correspond with the actual folios in those books on which the entries occur. The returns will be as follows :—

(1) Copy of cash book supported by vouchers, duly numbered and filed in order.

(2) Copy of journal, in which will be recorded all transactions other than those of a cash nature, particularly the proper allocation of expenditure during the month as between capital and revenue accounts. Full narrative should be inserted explanatory of each item.

(3) A copy of the Mine Ledger on separate sheets numbered to correspond with the actual ledger folios, each account starting with the balance as per last month's return, and containing the transactions during the month, closing with the balance.

(4) Monthly Trial Balance.

In addition to these monthly returns, the following should also be sent over on the occasion of each balancing period :—

(1) Certified copy of the bank pass book, certificate of the bank balance, and reconciliation statement.

(2) Certificate of cash in hand.

(3) Certified schedules of stock of ore, stores of material in hand, &c.

(4) Report on the condition of the Mine generally, with particular reference to the Development Accounts and the proportion thereof, which should be written off to revenue ; also as to the condition of the plant and machinery, and rate of depreciation necessary.

A duplicate set of Mine books will be kept at the Head Office as before described, and written up from these returns. At the end of each period the revenue balances in the Mine books will be transferred to the Head Office Account, and a corresponding entry made in the Head Office books, crediting the Mine Account and debiting Expenditure at Mine. The remaining balances in the Mine books will be converted at their proper rates, and the principle of amalgamating them with the Head Office figures will be the same as that described in dealing with Foreign Branch Accounts.

In many cases the ore sent from the Mine will be sold through agents, who will account for the same to the Head Office by way of Account Sales. In that event no record of ore sales will pass through the Mine books, but the same will be entirely dealt with by the Head Office. Where, however, the ore is realised by the Mine itself, the record thereof will appear in the Mine Accounts.

SYNOPSIS OF CHAPTER XI.

COST ACCOUNTS.

CHAPTER XI.

COST ACCOUNTS.

§ 1.—The Principle of Cost Accounts.

In practice the question of Cost Accounts is frequently one of considerable difficulty. It is only proposed here to deal with the question from a general point of view ; to set forth the basic principles upon which all systems of costing are founded. However technical the detail of the business to which it is desired to apply a system of Cost Accounts, the principle upon which such system must be formed is the same in all cases.

The object of Cost Accounts is not only to ascertain the precise cost of the work performed and profit thereon, but also the way in which that cost is made up, and the relation that each item of cost bears to previous transactions of a similar nature. The method to be adopted to arrive at this result will vary according to the nature of the business involved, but it may be convenient here to set out the general classes of Cost Accounts, and to consider these in detail afterwards.

(1) *Contract or Terminal Cost Accounts*, where the object is to arrive at the cost of each Contract entered into, and the profit or loss thereon. This is applicable to businesses such as builders, contractors, engineers, &c.

(2) *Output or Single Cost Accounts*, where the object is to arrive at the cost of a given output, and where there is a natural unit of cost, *e.g.* a ton of coal raised in the case of collieries, or a barrel of beer brewed in the case of breweries.

(3) *Factory Cost Accounts*. These may be of three kinds—(1) Departmental Cost Accounts, where the factory is divided into various departments, and it is desired to find the cost of working each

department; (2) Multiple Cost Accounts, where the object is to ascertain the cost where a number of products are manufactured, bearing little or no relation to one another; (3) Process Cost Accounts, where the object is to cost each stage in the manufacture of a single article.

(4) *Working Cost Accounts,* relating to such undertakings as railways, gas, water, electric light, &c.

§ 2.—Contract Cost Accounts.

The following is an outline of a system of Cost Accounts suitable for the business of a builder or contractor. There will be a Contract Ledger, in which an account will be opened for each Contract, the Contracts being numbered consecutively. The expenditure to be debited will be in respect of materials, wages, and establishment charges, and columns must be ruled in the Contract Ledger for each class of expenditure. It is obvious that if only the total cost of the materials and wages spent can be obtained, this information in itself will not be of sufficient value, and in order that the greatest amount of benefit can be derived from the Cost Accounts, it is necessary that the materials and wages columns should be sub-divided, so that the total cost of each class of material used and labour employed may be ascertained. This sub-division, however, does not affect the general principles of the system, and the extent to which it is adopted will depend on the expense that the owners of the business are prepared to incur in connection with it, since the more detail required the more expensive the operation of the system.

The expenditure under the heads of materials will be of two kinds:—

(1) Materials purchased specially for the Contracts, and sent direct thereto;

(2) Materials purchased for store, and charged out to the Contracts as and when requisitioned.

(a) The Purchase Journal.

There are various methods that may be adopted in order to record the purchases. The Purchase Journal may be ruled with quantity and money columns, and the detail of the invoices entered therein ; but in a business of any size this is found too laborious, and the slip system is resorted to, *i.e.* the invoices themselves are the basis from which the analysis is made. In any event the Purchase Journal will be ruled with two columns headed "Materials for Contracts" and "Materials for Store" respectively. The invoices will be entered up, and the proper amounts extended into their respective columns, the detail being posted to the credit of the creditor, and the totals being posted monthly to the debit of the Materials for Contracts Account and Materials for Store Account respectively.

The following is a convenient ruling of a Purchase Journal in cases where it is desired to record therein the whole of the detail.

ILLUSTRATION—

PURCHASE JOURNAL.

Date.	Invoice Number.	From whom Purchased.	Description of Materials.			Bought Ledger.		B.L. Folio.	Number of Contract chargeable.	Materials for Contract.	Contract Ledger Folio.	Materials for Store.	Store Ledger Folio.
			Class.	Quality.	Weight or Quantity.	Detail.	Total.						

(b) Materials for Contracts.

The Materials for Contracts column of the Purchase Day Book will be analysed each month, both in respect of the particular contract for which the materials are purchased, and the different classes of materials for which columns are provided in the Contract Ledger. The details of this analysis will be posted to the debit of the respective Contract Accounts in the Contract Ledger.

(c) Materials for Store.

If it is desired to record the Store transactions in detail, it will be necessary to have a Store Ledger ruled with quantity and money columns, in which an account will be opened for each particular class of material. The advantage of this is considerable, inasmuch as it enables the stores on hand at the end of each period to be agreed with the balance of each Store Account. If there are any considerable differences these should be traced. There will always be a certain amount of difference arising owing to breakage in bulk, shrinkage in weight and so forth, which will require adjustment.

The amount of detail involved in keeping the Store Ledger in this manner is, however, very considerable, and consequently the system is not always adopted. In such an event it will be sufficient if accounts are opened in the Store Ledger equivalent to the headings of the subdivision of the Materials column in the Contract Ledger.

In either event as regards the Purchase Day Book the procedure will be the same.

The Materials for Store column will be analysed monthly, and debited in detail to the respective Store Accounts.

Materials issued from Store will only be sent out on the authority of a requisition note containing particulars of materials required, the number of the Contract to which they are to be charged, and the signature of the responsible official. These requisition notes will be sent up to the costing department, and the materials priced out at cost, and charged up to the Contracts through the Stores Issued Analysis book. The monthly totals of this Stores Analysis book will be debited, as regards materials sent to each Contract, to the Contract Account in question, and credited, as regards the Stores issued, to the respective Stores Accounts involved.

(d) Materials returned from Contracts.

A record will have to be kept of all materials returned from Contracts, and distinction made between those returned direct to Creditors and those returned to Store. The method of recording these returns will

be worked on the same principles as previously described, the Contract Accounts being credited, and the Creditors' Accounts or respective Store Accounts, as the case may be, debited.

(e) Plant used on Contracts.

A separate column should be provided in the Contract Ledger for Plant, and each Contract Account should be debited with the Plant, Loose Tools, &c., required. In the event of this Plant being specially erected, the cost of such erection should also be debited. At the conclusion of the Contract the Plant may be either sold or returned into Store. In the event of sale, the sale price will be credited to the Contract, and in the event of the Plant being returned into Store it should be returned at a proper valuation, so that the depreciation arising may fall upon the Contract in question.

A Plant Register should be kept, from which the details representing the balance on Plant Account in the Store Ledger can be ascertained. It can then be seen if the balance on the account represents a fair valuation of Plant not out on Contracts.

(f) Carriage of Materials.

Where large sums are paid for Carriage of Materials, a special column should be provided in the Contract Ledger for this item, and all Carriage that can be properly charged up to the Contract should be debited thereto.

(g) Wages.

The Wages column in the Contract Ledger may be sub-divided as required to record the most important classes of labour. In many cases it may be possible for separate wages sheets to be prepared each week in respect of each Contract, and where this can be done a considerable amount of analysis will be saved. In other cases, however, this will not be found practicable, and the whole of the wages must therefore be analysed by means of a Wages Analysis Book. In this way the amount of wages chargeable to each Contract can be ascertained and charged up thereto.

There will always be a certain number of men employed whose wages cannot be charged to any particular Contract. These items will rank as Establishment Charges, to be dealt with as hereafter described. The total of the Wages Analysis Book each week should agree precisely with the amount of wages paid.

(h) Establishment Charges.

The problem as to the best method of dealing with indirect expenditure in connection with Cost Accounts—generally known as On Cost—is one which has received much attention, and various solutions have been put forward. It is apparent that, in calculating the profit to be derived from a Contract, allowance must be made for all indirect expenditure. Such expenditure may be divided into two classes—Works Expenses and Administration Expenses.

(1) *Works Expenses* would include such items as the following :—

Wages that cannot be accurately charged up to any particular Contract, such as wages of the general foremen, yard wages, storekeeper's wages, &c.

Repairs to buildings, plant and machinery at Works.

Fuel and light, water, &c.

Rent, rates and taxes of Works.

Carriage not chargeable to any particular Contracts.

Depreciation.

(2) *Administration Expenses* would include such items as :—

Salaries of clerks.

Office expenses.

Office rent, rates and taxes.

Travelling expenses, and all other expenses necessary for carrying on the business.

The two principal methods by which these charges may be allocated over the various Contracts are :—

(1) By ascertaining the amount to be charged to each Contract in the ratio that the expenditure made on each Contract during the period bears to the total expenditure on the Contracts during the period.

(2) By calculating the proportion, not on the total expenditure on Contracts, but on the total cost of labour incurred by each Contract during the period under review.

It is not proposed here to discuss the relative advantages of either system, or to refer to the other methods of apportionment that there are in use, as the matter is not of cardinal importance, and should be decided in practice purely on the merits of each particular case. It may be said, however, that a combination of the two principles above described would seem to meet the case best from a general point of view, *i.e.* dividing the Works Expenses in relation to the wages spent on each Contract during the period, and the Administration Expenses in relation to the total expenditure made on each Contract.

In many cases, particularly in respect of jobbing works, it is customary to charge an estimated percentage in respect of Establishment Charges, and this percentage is frequently based upon the figures of the previous period. It is clear that difficulties will arise in this connection owing to the fact that the Contracts are completed at irregular intervals. This, however, is a matter of detail, the treatment of which will depend on the precise circumstances of the business concerned.

Where it is not desired to divide the Establishment Charges into two sections in the manner above described, it is usual to adopt the principle of dividing the whole amount thereof in proportion to the wages paid.

Sometimes the Establishment Charges are not divided over the Contracts at all, and in these cases the Cost Accounts will only show the gross profit on each Contract.

(i) The Contract Ledger.

In the course of the above remarks the various items that go to the debit of the Contract Ledger have been dealt with, and the manner in which they are ascertained. The question of the Materials and Plant returned from Contracts has also been touched upon. In order to avoid having a large number of credit columns in the Contract Ledger, it is frequently arranged for these returns to be entered on the debit side

in red ink, and deducted in casting. The total of each column will then give the net figure of expenditure under its particular heading. Another method is to make these deductions in the Stores Issued Analysis Book before the debits are posted.

It is often undesirable that the profit or loss realised on Contracts should be known to the clerks generally, and consequently it may be convenient to utilise a Contract Summary Ledger into which the totals in respect of each Contract will be taken at regular periods. These totals will only represent the expenditure on the Contract, the ordinary Contract Ledger not containing credit items. The amounts to be placed to the credit of each Contract in the Contract Summary Ledger will ultimately be equivalent to the Contract price, together with any extras chargeable. It is inadvisable to credit the total Contract price in the first instance, as this will involve a corresponding debit to the Contractee's Personal Account, and will not correctly represent the position of affairs, as the Contractee is not a debtor for the full amount of the Contract until completion.

The usual custom in Contracts of any size is for the Contractee's Surveyor or Architect to examine the work done from time to time, and issue his certificate as to the value thereof, the Contractee being then liable to pay an instalment of the Contract price equal to the amount certified, or less a reduction of, say, 10 per cent. or 20 per cent. retained pending the completion of the Contract. Where this principle is adopted, it may be convenient to credit the Contract Account with the amount certified for, and debit the Contractee's Personal Account, the latter being credited with the cash paid, whether this be the full amount or less the deduction above-mentioned. In the same way the extras will be credited to the Contract Account, and debited to the Contractee when the invoice in respect thereof is sent out.

If this method is not adopted no credit should be passed to the Contract Account until the completion of the Contract, any sums received on account from the Contractee being in the meantime credited to his Personal Account.

On the preparation of a Balance Sheet the expenditure on all Contracts not yet completed will be brought in as an asset under the heading "Work in Progress," and all sums received in respect of such Contracts from the Contractees will be deducted from the asset figure and the net amount extended. If the Contract Accounts have been credited with the work certified for, and the Contractee's Accounts debited, these items should be eliminated from the Balance Sheet. In no case should the amounts received from the Contractees show as a liability in the Balance Sheet, neither should the Contractees show as debtors for the total Contract price less what they may have paid on account.

The following is a convenient form of Contract Ledger which can be modified as required :—

ILLUSTRATION—

CONTRACT LEDGER.

Dr. CONTRACT No. *Cr.*

Date.	Particulars.	Folio.	Materials.	Plant.	Wages.	Establishment Charges.	Total Debits.	Date.	Particulars.	Folio.	Total Credits.

Note to Illustration.

The Materials and Wages Columns will be sub-divided as required. If the Materials and Plant returned are not dealt with by way of deduction as previously described, additional columns must be provided on the credit side therefor.

(j) Taking Profit on Uncompleted Contracts.

The question as to whether or not profit should be taken in respect of Contracts uncompleted at the date of the Balance Sheet is an important one. There can be no doubt that theoretically it is preferable not to take any profit until the whole Contract is completed, as in many cases, although the Contract may be near completion, some contingency might arise which would destroy the whole profit that was anticipated. In consequence of this possibility it is the practice of some businesses not to take any profit on Contracts until completion.

This practice, however, suffers from a serious disadvantage. It will frequently be found that large sums of cash are in hand representing realised profits to date on Contracts in course of completion, and yet owing to the fact that comparatively few Contracts have been completed within the financial year, the balance to the credit of the Profit and Loss Account is either very small or there may be even a debit balance. In such a case, in the event of the business being owned by a Limited Company, the question of dividends at once arises, and while it might not be possible to declare a dividend without taking profit on uncompleted Contracts, there might nevertheless be large sums of money in hand which could not be utilised in the business. This difficulty, however, can be overcome by the creation of an Equalisation of Dividends Reserve Account, which can be drawn upon to maintain the dividends in years when few Contracts fall in for completion, and can be built up correspondingly in other years when a large number of Contracts happen to fall in.

In whatever way this difficulty may be overcome, the fact remains that in order to work on the system of not taking profit until completion of the Contract, it will be necessary to maintain a larger working capital in the business than would otherwise be the case. In many instances, particularly in the case of private firms, the completion of the Contract is not awaited before profit is taken, and the question then arises—What is the best method of determining profit on uncompleted Contracts, and how much of such profits may properly be taken to the credit of profit and Loss Account ?

In considering the question as to whether profit can be taken, no hard-and-fast rule can be laid down as applicable to each and every Contract. Each Contract must be considered on its own merits, and all the circumstances surrounding it which might tend to influence the final result must be carefully considered ; for instance, the possibility of a rise in raw material before the completion of the Contract, which is not covered by a protecting clause in the Contract itself. Assuming, however, that there is every reasonable ground to presume that things will take their normal course, there are two methods by means of which the estimated proportion of profit can be arrived at.

(1) Where the Contract is nearly completed, an estimate should be made of the further expenditure which it will be necessary to incur, allowing in such estimate a reasonable proportion of profit. If this estimate be added to the total expenditure already incurred, the difference between the figure so arrived at and the amount that will be credited to the Contract on completion will represent profit to date.

(2) Where the Contract is not sufficiently advanced to adopt the above method, it will be necessary to prepare a memorandum Profit and Loss Account of the Contract in the following manner:—On the debit side will be placed the total expenditure to date in respect of materials, wages and proportion of establishment charges, together with the value of any plant, &c., charged out to the Contract. On the credit side should be placed the total amount of the work certified for, the amount of work done but not yet certified for at cost, the value of stores and materials on hand at cost, and the present value of the plant employed on the Contract. The difference between the two sides will then represent, if a credit, the profit to date on the Contract.

No profit should be taken on any Contract which is not in a reasonable stage of advancement, and, as a general rule, it may be said that if the expenditure to date has not amounted to one-third of the total estimated expenditure, no profit should be taken. As regards the remaining Contracts, where the profit to date has been arrived at by one of the above methods, it is highly undesirable that the whole of such profit should be taken to the credit of the current Profit and Loss Account, since notwithstanding it may have been very clearly earned, at the same time contingencies may subsequently arise which may destroy the whole or a portion thereof. It is therefore advisable that only a proportion of such profit, say two-thirds, should be taken to the credit of Profit and Loss Account, the remaining one-third being available against contingencies.

A fact which has to be taken into account in dealing with this question of profit is the proportion of cash received from the Contractee

in relation to the work performed. Where no cash has been received, it is better that no profit should be taken, and where the cash received is out of proportion to the amount of work done, it may be advisable to take only profit in relation to the cash received rather than to the amount of work completed.

In the event of profit being taken, the amount thereof relative to each Contract will be debited to the Contract Account, and credited to Profit and Loss, and as a result, the amount standing in the Balance Sheet under the heading "Work in Progress" will include such profit so taken, and the wording of the Balance Sheet should disclose this fact. The amount credited to the Profit and Loss Account in respect of profit on Contracts uncompleted should be clearly shown as such.

ILLUSTRATION—

The Contract Ledger of a Company showed the following expenditure on account of Contract No. 1 at 31st December, 1919:—

	£	s.	d.
Materials	60,000	0	0
Plant	10,000	0	0
Wages	82,200	0	0
Establishment Charges	4,300	0	0
	£156,500	0	0

The Contract was commenced in January, 1919, and the Contract price was £300,000. Cash received on account to date was £120,000, representing 80 per cent. of the work certified for, the remaining 20 per cent. being retained until completion. The value of materials on hand and work finished but not certified for was £5,000.

Prepare an account in respect of the Contract, showing the profit to date, assuming Depreciation on Plant at 10 per cent. per annum, and state the proportion of profit the Company would be justified in taking to the credit of Profit and Loss Account.

Dr. CONTRACT No. 1, PROFIT AND LOSS ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Materials..	60,000	0	0	By Work certified for	150,000	0	0
" Plant	10,000	0	0	" Material on hand and work finished but not certified for, at cost ..	5,000	0	0
" Wages	82,200	0	0	" Plant, *less* Depreciation	9,000	0	0
" Establishment Charges	4,300	0	0				
" Balance, being Profit	7,500	0	0				
	£164,000	0	0		£164,000	0	0
	£	s.	d.		£	s.	d.
To Profit and Loss Account	4,000	0	0	By Balance	7,500	0	0
" Balance forward	3,500	0	0				
	£7,500	0	0		£7,500	0	0
				By Balance	£3,500	0	0

Note to Illustration.

It is not advisable to take more than two-thirds of the profit shown in relation to the work certified for, leaving the balance to be carried forward against contingencies. The proportion in this case would amount to £5,000, but as only 80 per cent. of the work certified for has been received in cash, it is preferable to make the calculation on the basis of the cash received; consequently, 20 per cent. of the £5,000 will be further reserved, leaving £4,000 to be taken to the credit of Profit and Loss.

In the Balance Sheet the item will then show as follows:—

	£ s. d.	£ s. d.
Work in Progress, including proportion of estimated profit	160,500 0 0	
Less Cash received on account	120,000 0 0	
		40,500 0 0

(k) The Reconciliation of the Cost Accounts with the Financial Books.

In the course of the above remarks it has been assumed that the Cost Accounts have been kept throughout on double entry lines. It is highly desirable that this should be the case, as a memorandum system is not susceptible to proof, and leads to laxity and carelessness on the part of the clerks in charge of it. As, however, the Cost Accounts are usually worked by a separate department, it is not convenient for them to form part of the general double entry of the financial books as far as the detail is concerned, and consequently there should be an Adjustment Account between the cost books and the financial books. This will enable each set of books to act independently as a check upon the other.

In the financial books an Adjustment Account should be opened, through which will be passed in total all the transactions which are debited or credited in detail in the Stores Ledger or the Contract Ledger, transfers being made from the various nominal accounts concerned.

On the debit side of this account will be found the following:—

(1) The total of the purchases, both those for Store and those delivered direct to Contracts.

(2) The total of the wages debited to the Contracts.

(3) The total of the Establishment Charges debited to Contracts.

(4) Profit taken debited to Contracts.

While on the credit side will be found in total all items credited to the Contract Ledger and Stores Ledger.

The debit and credit entries as between the Stores Ledger and the Contract Ledger for materials used will not need to be recorded in this Adjustment Account. The debit balance on the Adjustment Account will then represent the net total of the balances on the Stores Ledger and the Contract Ledger taken together.

If it is desired to keep separate Adjustment Accounts for the Stores Ledger and the Contract Ledger, this of course can be easily arranged.

ILLUSTRATION—

John Boles and William Briggs, trading as Boles & Co., are Contractors. They have a Contract Ledger in which separate accounts are kept for each contract or piece of work, and these accounts are respectively debited with the cost of materials, labour and expenses, and credited, when the work is completed, with the proper contract price or charge, which is also passed through the Contracts Day Book to the debit of the customer. A Contract Ledger Account is kept in the Private Ledger, which is debited with the total amounts of materials and other items charged to Contracts, and credited with the total charges; thus the total balances of the Contract Ledger should agree with the balance of this Account. A Stores Ledger Account is kept on similar lines. Profits and losses are shared equally.

From the following Trial Balance on 30th June, 1920, write up Stores Ledger Account and Contract Ledger Account, and prepare Profit and Loss Account and Balance Sheet.

TRIAL BALANCE.

	£ s. d.	£ s. d.
Stores in hand 30th June, 1919	800 0 0	
Work in Progress (balance of Cost Accounts as per Contract Ledger 30th June, 1919)	3,500 0 0	
Purchases (taken into Store)	6,282 0 0	
Wages (debited to Contract Accounts)	5,820 0 0	
Purchases („ „)	6,778 0 0	
Sundry Payments and Expenses (ditto)	130 0 0	
Contracts and charges credited to Contract Accounts		25,250 0 0
Sales from Store		250 0 0
Salaries and Wages (not charged to Contract Accounts)	621 0 0	
Rent, Rates, Light, Water and Insurance	980 0 0	
Travelling, Commission and Advertising	2,100 0 0	
Trade and Sundry Expenses	506 0 0	
Discounts, Allowances and Bad Debts	330 0 0	
Sundry Debtors	12,063 0 0	
Machinery, Plant, Tools and Fixtures	6,450 0 0	
Sundry Creditors		5,990 0 0
Cash in hand	95 0 0	
„ at Bankers	3,035 0 0	
Capital:—		
John Boles		10,000 0 0
William Briggs		8,000 0 0
	£49,490 0 0	£49,490 0 0

Materials taken from Store and debited to Contract Accounts amounted to £6,000.

Stores on hand 30th June, 1920, £1,008.

Work in Progress as per Schedule of Contract Accounts, £4,960.

Charge 10 per cent. depreciation on Machinery, Plant, Tools and Fixtures, and provide £600 to cover Discounts and Bad Debts.

CONTRACT LEDGER ACCOUNT.

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Work in Progress 1st July, 1919 ..	3,500	0	0	By Contracts and Charges	25,250	0	0
„ Purchases	6,778	0	0	„ Work in Progress, 30th June, 1920	4,960	0	0
„ Materials from Store	6,000	0	0				
„ Wages	5,820	0	0				
„ Payments and Expenses	130	0	0				
„ Profit on Contracts	7,982	0	0				
	£30,210	0	0		£30,210	0	0

STORES LEDGER ACCOUNT.

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Stock 1st July, 1919	800	0	0	By Sales of Stores	250	0	0
„ Purchases	6,282	0	0	„ Materials charged to Contract Accounts	6,000	0	0
„ Profit on Stores sold	176	0	0	„ Stock 30th June, 1920	1,008	0	0
	£7,258	0	0		£7,258	0	0

PROFIT AND LOSS ACCOUNT.

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Salaries and Wages	621	0	0	By Profit on Contracts, as per Contract Ledger Account	7,982	0	0
„ Rent, Rates, Light, Water and Insurance	980	0	0	„ Profit on Stores sold	176	0	0
„ Travelling, Commission and Advertising	2,100	0	0				
„ Trade and Sundry Expenses	506	0	0				
„ Discounts, Allowances and Bad Debts	930	0	0				
„ Depreciation of Machinery, &c. ..	645	0	0				
„ Net Profit carried down	2,376	0	0				
	£8,158	0	0		£8,158	0	0
To Capital Accounts :—				By Net Profit	2,376	0	0
J. Boles	1,188	0	0				
W. Briggs	1,188	0	0				
	£2,376	0	0		£2,376	0	0

BALANCE SHEET, 30TH JUNE, 1920.

Dr.	£ s. d.	£ s. d.	*Cr.*	£ s. d.	£ s. d.
To Sundry Creditors ..		5,990 0 0	By Machinery, Plant, Tools and Fixtures	6,450 0 0	
„ Capital Accounts :—			*Less* Depreciation written off	645 0 0	5,805 0 0
J. Boles, 1st July, 1919	10,000 0 0		„ Works in Progress		4,960 0 0
Add Profit .. .	1,188 0 0	11,188 0 0	„ Stock		1,008 0 0
W. Briggs, 1st July 1919	8,000 0 0		„ Sundry Debtors	12,063 0 0	
Add Profit	1,188 0 0	9,188 0 0	*Less* Reserve for Discounts and Bad Debts ..	600 0 0	11,463 0 0
			„ Cash in Hand	95 0 0	
			„ „ at Bank	3,035 0 0	3,130 0 0
		£26,366 0 0			£26,366 0 0

§ 3.—Output Cost Accounts.

In businesses where there is a natural and uniform unit of production, it is necessary that the cost per unit of output should be ascertained at frequent intervals. In many cases the information as to the cost is all that is necessary, and it is not essential to show the profit on the working, since this can be readily ascertained by a comparison between the cost per unit and the selling price per unit.

In other cases, however, it is convenient to show not only the cost but also the profit. Statements are usually prepared monthly, and where they relate only to the cost per unit, are termed Cost Sheets. Where the statement shows both cost and profit, it becomes a Production or Output Account, and is equivalent to a Trading Account for the month arranged in a special form.

(a) Cost Sheets.

A Cost Sheet is a statement showing the output during a given period, and the cost of the same divided up under its various heads, with a particular column showing the percentage of each item of cost per unit of output. It may be convenient also to show the quantity of raw materials consumed, and the percentage of raw materials consumed per unit of output.

The advantages derived from the preparation of these sheets are considerable. The exact cost can be ascertained, and by a comparison of the percentage column with that of the previous Cost Sheets, the fall or rise in cost can be located, and the reason of it discovered. If it is due to errors, these can be rectified; if to waste or mismanagement, proper steps can be taken to prevent any recurrence of the same. Tenders can be more accurately made, and the selling price more closely adjusted.

The Cost Sheet is a memorandum statement, and has no direct relation to the double entry. The quantities will be derived from the various stock books, accurate records being kept of the quantities of materials consumed each month, and of the output. The money values will be taken from the financial books.

As regards Establishment Charges, it is a matter of opinion whether these should be included or not; if included, whether they should be shown in detail or in total. It is clear that the selling and distributing expenses do not bear any direct relation to the output of a given period, while at the same time these expenses must be borne in mind in fixing the selling price. It is therefore suggested that these expenses should be provided for by way of a general percentage, the rate of which must be carefully adjusted from time to time, in accordance with the actual facts as disclosed by the accounts. On the other hand, manufacturing and works expenses bear a direct relation to the output of each period, and should be capable of precise calculation.

The extent to which detail is carried in subdividing the various items of cost, particularly in connection with the wages, depends entirely upon the nature of the business, and the amount of information which it is desired the Cost Sheet shall disclose.

The principle involved is the same in all cases, whether there be a larger or smaller number of items concerned.

The following is a simple form of Cost Sheet for a Colliery :—

ILLUSTRATION—

COLLIERY COST SHEET.

AUGUST, 1920.		MONTH ENDING :—	SEPTEMBER, 1920.	
Amount.	Cost per Ton.	SALEABLE TONS RAISED, 15,000 TONS.	Amount.	Cost per Ton.
£ s. d.	s. d.		£ s. d.	s. d.
		WAGES :—		
		Underground	15,123 14 9	20 1·97
		Surface	2,354 12 5	3 1·67
		WORKING EXPENSES :—		
		Stores	195 10 7	3·13
		Repairs and Renewals	625 13 2	10·01
		Stable Expenses	210 11 3	3·37
		Timber	340 5 0	5·44
		Rents, Rates and Taxes	203 2 4	3·25
		Royalties and Wayleaves	542 17 4	8·70
		Depreciation	275 10 0	4·41
		ADMINISTRATION EXPENSES :—		
		General Administration Expenses, Selling, and Distributive Charges	750 0 0	1 0·00
			£20,621 16 10	27 5·95

The column provided on the left of the Cost Sheet is in order that the figures respecting a previous month may be inserted for comparative purposes.

The following is a simple form of Cost Sheet in respect of an Iron Founder:—

ILLUSTRATION—

IRON FOUNDER.

August, 1920.		Cost Sheet for the Month of	September, 1920.	
Cost per Ton of Output.	Amount.	OUTPUT, 1,000 TONS.	Cost per Ton of Output.	Amount.
£ s. d.	£ s. d.		£ s. d.	£ s. d.
		1.—Materials:—		
		Pig Iron	6 18 0	6,900 0 0
		Scrap Iron	3 17 0	3,850 0 0
		Coal and Coke	1 10 3	1,512 10 0
		2.—Working Expenses:—		
		Wages	1 14 6·12	1,725 10 0
		Stores	3 4·70	169 11 5
		Sand and Loam	2 10·24	142 13 4
		Repairs and Renewals	8 3·79	415 16 3
		Rents, Rates and Taxes	3 2·58	160 15 3
		Gas and Water	1 0·81	53 7 2
		Depreciation	2 8·57	135 14 3
		3.—Administration Expenses:—		
		General Administration	7 6·15	375 12 2
			£15 8 9·96	£15,441 9 10

In practice it would be advisable to set out in a column provided, to the left of the sheet preferably, the figures in respect of the previous month for purposes of comparison.

(b) Production Accounts.

It may be desirable in many cases to prepare accounts monthly, or at other intervals, to show not only the actual cost of the output but the profit on trading.

ILLUSTRATION—

The following are the balances of the Impersonal Ledger of a Colliery, relating to Revenue for the month of September, 1920:—

	£ s. d.
Wages paid for Coal Production	17,478 7 2
Timber used	340 5 0
Ropes and Stores	195 10 7
Royalties	542 17 4
Rents, Rates and Taxes—Coal Production Account	203 2 4
Colliery Administration Charges	750 0 0
Sales of Coal including Colliery Consumption, 12,100 tons	24,200 0 0
Of the Stock at 1st September, 6,900 tons were sold to Coke Production Departmen at 25s. per Ton.	
Depreciation Coal Production Account	275 10 0
Stable Expenses ditto	210 11 3
Repairs and Renewals ditto	625 13 2
Coke Production, Wages	1,400 0 0
Coke Production, Stores consumed	160 0 0
Coke Production, Salaries	90 0 0
Sales of Coke, 4,800 tons	12,000 0 0

Stock of Coal at 1st September was 7,000 tons, valued at 25s. per ton, and at the 30th September, 3,000 tons, valued at 27s. 6d. per ton.

The Stock of Coke at 1st September was 2,000 tons, valued at 35s. per ton, and at the 30th September, 1,900 tons, valued at 43s. 6d. per ton.

The total production at the Colliery was 15,000 tons of Coal, and 4,700 tons of Coke.

Prepare separate Production Accounts for the Coal and Coke, showing the cost of each item of expense per ton of Coal and Coke respectively, working to two places of decimals only.

Dr. COAL PRODUCTION ACCOUNT. *Cr.*

	Cost per Ton Produced.	Details.	Amount.		Details.	Amount.
	s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Stock, 7,000 tons @ 25s.			8,750 0 0	By Sales to Coke Production Dept.—		
,, Wages	23 3·64	17,478 7 2		6,900 tons @ 25s.	8,625 0 0	
,, Stores	3·13	195 10 7		,, Sales, 12,100 tons @ 40s.	24,200 0 0	
,, Repairs and Renewals ..	10·01	625 13 2				32,825 0 0
,, Stable Expenses ..	3·37	210 11 3		,, Stock, 3,000 tons @ 27s. 6d.		4,125 0 0
,, Timber	5·44	340 5 0				
,, Rents, Rates and Taxes	3·25	203 2 4				
,, Royalties	8·70	542 17 4				
,, Depreciation	4·41	275 10 0				
,, Administration Charges	1 0·00	750 0 0				
Production, 15,000 tons @	27 5·95		20,621 16 10			
			29,371 16 10			
To Profit			7,578 3 2			
			£36,950 0 0			£36,950 0 0

Dr COKE PRODUCTION ACCOUNT. *Cr.*

	Cost per Ton Produced.	Details.	Amount.		Amount.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.
To Stock, 2,000 tons @ 35s. ..			3,500 0 0	By Sales, 4,800 tons @ 50s. ..	12,000 0 0
,, Coal, 6,900 tons	1 16 8·42	8,625 0 0		,, Stock, 1,900 tons @ 43s. 6d.	4,132 10 0
,, Wages	5 11·49	1,400 0 0			
,, Stores	8·17	160 0 0			
,, Salaries	4·60	90 0 0			
4,700 tons @ ..	£2 3 8·68		10,275 0 0		
			13,775 0 0		
,, Profit..			2,357 10 0		
			£16,132 10 0		£16,132 10 0

Sometimes it is found useful to combine a Cost Sheet and Production Account into one statement, so varied that the most useful information may be easily obtained. Where several products are produced, it may be desirable to ascertain, for instance, the quantity percentages which the same bear to the principal raw material used in the manufacture.

ILLUSTRATION—

From the following particulars make out a monthly Cost Sheet of the Coke and Bye-Product Company:—

	September, 1920.
Coal used 6,900 tons	@ 25s. per ton.
Coke made 4,700 tons	@ 35s. ,,
Tar made 325 tons..	@ 90s. ,,
Sulphate of Ammonia made 90 tons ..	@ £40 ,,
Sulphuric Acid used 75 tons	@ £9 ,,
Benzole made 12,300 gallons	@ 1s. 10½d. per gallon.
Creosote Oil used 7 tons	@ 1s. 4½d. ,,
(1 ton = 220 gallons.)	
Wages	£1,400
Stores, &c.	£160

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of Ammonia made, to the weight of Coal used.

COKE AND BYE-PRODUCT COMPANY.

Dr. COST SHEET, SEPTEMBER, 1920. *Cr.*

Materials, &c.				Products.				
Particulars.	Price.	Quantity.	Amount.	Particulars.	Price.	Quantity.	Percentage to weight of Coal used.	Amount.
	Per Ton. £ s. d.	Tons.	£ s. d.		Per Ton. £ s. d.	Tons.		£ s. d.
Coal	1 5 0	6,900	8,625 0 0	Coke	1 15 0	4,700	68·12	8,225 0 0
Sulphuric Acid	9 0 0	75	675 0 0	Tar	4 10 0	325	4·71	1,462 10 0
	Per Gal.			Sulphate of Ammonia..	40 0 0	90	1·30	3,600 0 0
Creosote Oil ..	1 4½	7	104 5 5			Gallons.		
Wages			1,400 0 0					
Stores			160 0 0	Benzole ..	1 10½	12,300		1,153 2 6
Total Cost ..			10,964 5 5					
Profit ..			3,476 7 1					
			£14,440 12 6					£14,440 12 6

(c) Working Accounts.

Where complete Cost Accounts are not kept, or where only Cost Sheets are prepared, it is desirable to extend the division of the Profit and Loss Account by the Compilation of a Working Account or Manufacturing Account.

The Working Account is the first part of the Profit and Loss Account. It will be charged with all raw materials and partly manufactured stocks in hand at the commencement of the period, purchases of Raw Materials, Wages, and other items of prime cost; and will be credited with the Raw Materials and partly manufactured Stocks in hand at the end of the period. The difference between the two sides will then represent the net cost of the output for the period, and will be credited to the Working Account thus closing it off, and debited to the Trading Account.

The Trading Account will be debited with the opening stock of the manufactured Article, and with the cost of production of Stock manufactured during the period as shown by the Working Account; and will be credited with Sales, and with the manufactured Stock on hand at the date of the Account. The difference on the Trading Account will then show the Gross Profit, and the remaining portions of the Profit and Loss Account will be compiled in the usual manner.

Where the product manufactured is capable of reduction to a definite unit, *e.g.*, per ton of iron made, the cost per ton over the period can be exactly calculated by dividing the known output into the cost shown by the Working Account.

ILLUSTRATION—

NORTHERN IRON COMPANY, LIMITED.

The following are the balances on the books of the Northern Iron Company, Limited, after all depreciations have been adjusted. The authorized Capital of the Company is £175,000, in £10 Ordinary Shares.

TRIAL BALANCE, 31ST DECEMBER, 1919.

	£ s. d.	£ s. d.
Freehold Land and Buildings	30,000 0 0	
Furnaces	30,000 0 0	
Plant and Machinery	16,000 0 0	
Share Capital issued and fully paid		100,000 0 0
Reserve		5,000 0 0
Reserve for Bad Debts		400 0 0
Sales		87,000 0 0
Wages (Furnaces)	10,000 0 0	
Wages (General)	1,000 0 0	
Salaries	550 0 0	
Carried forward	£87,550 0 0	£192,400 0 0

	£	s.	d.	£	s.	d.
Brought forward	87,550	0	0	192,400	0	0
Limestone Stock, 1st January, 1919	205	0	0			
Coal and Coke Stock ditto ditto	1,650	0	0			
Iron Ore Stock ditto ditto	1,000	0	0			
Pig Iron Stock ditto ditto	28,000	0	0			
Limestone Purchases	3,810	0	0			
Coal and Coke Purchases	25,217	0	0			
Iron Ore Purchases	15,110	0	0			
Sundry Creditors				6,120	0	0
Profit and Loss Account balance				3,271	0	0
Sundry Debtors	12,145	0	0			
Rates and Taxes	1,120	0	0			
Repairs, Renewals and Depreciation (Furnaces)	3,000	0	0			
Repairs and Renewals (General)	1,325	0	0			
Travelling	450	0	0			
Insurance	390	0	0			
General Expenses	1,471	0	0			
Bad Debts	205	0	0			
Carriage Inwards	1,843	0	0			
,, Outwards	2,300	0	0			
Depreciation (General)	2,412	0	0			
Bank	12,588	0	0			
	£201,791	0	0	£201,791	0	0

The Stocks on hand at 31st December, 1919, were certified as follows:—

	£	s.	d.
Pig Iron	17,162	0	0
Limestone	91	0	0
Coal and Coke	1,230	0	0
Iron Ore	1,315	0	0

Carry forward a Reserve of 5 per cent. for Bad and Doubtful Debts.

Prepare Working Account showing cost of pig iron produced during the year, and Trading and Profit and Loss Account, and Balance Sheet.

NORTHERN IRON COMPANY, LIMITED.

Dr. BALANCE SHEET, 31st December, 1919. *Cr.*

	£	s.	d.		£	s.	d.	£	s.	d.
To Authorized Capital— 17,500 Shares of £10 each	£175,000	0	0	By Freehold Land and Buildings				30,000	0	0
,, Issued Capital— 10,000 Shares of £10 each fully paid ..	100,000	0	0	,, Furnaces				30,000	0	0
,, Sundry Creditors	6,120	0	0	,, Plant and Machinery ..				16,000	0	0
,, Reserve	5,000	0	0	,, Stock— Raw Materials ..	2,636	0	0			
Profit and Loss Account	8,803	15	0	Pig Iron	17,162	0	0	19,798	0	0
				,, Sundry Debtors ..	12,145	0	0			
				Less Reserve	607	5	0	11,537	15	0
				,, Cash at Bank				12,588	0	0
	£119,923	15	0					£119,923	15	0

WORKING ACCOUNT

Dr. FOR YEAR ENDING 31ST DECEMBER, 1919. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Opening Stocks—			By Cost of Pig Iron Manufactured ..		59,199 0 0
Limestone	205 0 0		" Closing Stocks—		
Coal and Coke ..	1,650 0 0		Limestone	91 0 0	
Iron Ore	1,000 0 0		Coal and Coke ..	1,230 0 0	
		2,855 0 0	Iron Ore	1,315 0 0	
" Purchases—					2,636 0 0
Limestone	3,810 0 0				
Coal and Coke ..	25,217 0 0				
Iron Ore	15,110 0 0				
		44,137 0 0			
" Wages		10,000 0 0			
" Carriage Inwards ..		1,843 0 0			
" Repairs, Renewals and Depreciation ..		3,000 0 0			
		£61,835 0 0			£61,835 0 0

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR YEAR ENDING 31ST DECEMBER, 1919 *Cr.*

	£ s. d.		£ s. d.
To Opening Stock of Pig Iron	28,000 0 0	By Sales	87,000 0 0
" Working Account, Cost of Pig Iron Manufactured	59,199 0 0	" Closing Stock of Pig Iron	17,162 0 0
" Gross Profit	16,963 0 0		
	£104,162 0 0		£104,162 0 0
	£ s. d.		£ s. d.
To Wages	1,000 0 0	By Gross Profit	16,963 0 0
" Salaries	550 0 0		
" Rates and Taxes	1,120 0 0		
" Repairs and Renewals	1,325 0 0		
" Travelling	450 0 0		
" Insurance	390 0 0		
" General Expenses	1,471 0 0		
" Bad Debts	412 5 0		
" Carriage Outwards	2,300 0 0		
" Depreciation	2,412 0 0		
" Net Profit	5,532 15 0		
	£16,963 0 0		£16,963 0 0
	£ s. d.		£ s. d.
To Balance	8,803 15 0	By Balance from last account	3,271 0 0
		" Net Profit	5,532 15 0
	£8,803 15 0		£8,803 15 0
		By Balance	£8,803 15 0

§ 4.—Factory Cost Accounts.

(a) Departmental Cost Accounts.

In a factory where there are various departments, each manufacturing articles of a kindred nature, and it is desired to ascertain the result of each department rather than the precise cost of each article produced, a system of accounts similar in all respects to that described under the section dealing with Departmental Accounts in Chapter X. can be utilised,

and the principles already laid down in connection with Contract Cost Accounts applied to it. All the materials and wages relative to each department will be allocated thereto, and the Establishment Charges will be apportioned on some proper basis, either in relation to the turnover or the labour, or in some instances the floor space occupied.

(b) Multiple Cost Accounts.

Where a large number of different articles are manufactured, and it is desired to ascertain the precise cost of each article, the system of Cost Accounts that will be required must necessarily be technical and elaborate, and it is beyond the scope of the present work to discuss such a system in detail. There are various methods in vogue, but the one known as the "Unit System" may be mentioned. This involves the creation of a standard unit of output, into the terms of which all articles manufactured are converted, thus affording a fixed basis of comparison for all items of cost, such as materials, wages, and Establishment Charges.

(c) Process Cost Accounts.

The system to be applied where it is desired to cost each stage in the manufacture of a single article is also a very technical one, and will vary according to the requirements of each particular business. It is only possible here to state that each process must be regarded in the light of a department, and the materials, wages, and establishment charges apportioned accordingly. It is important to observe that the finished material of the first stage will become the raw material of the second stage, and so on. If the finished material of the first stage is charged up to the second stage at cost, then each Process Account will simply show the bare cost, and will disclose neither profit nor loss. It is frequently found desirable, however, to fix a selling price as between one process and another, in order to enable the manager of each process to show as good results as he can, as he may receive a commission based on such results. When this is done, care must be exercised to see that the stocks remaining on account of each process at the end of any balancing period are adjusted back to their original cost, so that no profit shall be taken in respect of stock on hand at the date of the Balance Sheet, whether wholly or partially manufactured.

§ 5.—Working Cost Accounts.

This class of Cost Accounts relates to those businesses where it is desired to ascertain the cost of working rather than the cost of manufacture, and the nature of the account will vary with each particular kind of business. The principal point to observe is that the unit of cost must be carefully selected to afford a proper basis of comparison for the various items of expenditure. Sometimes two units are utilised, in order that the deficiencies arising on one basis may be corrected under another ; for instance, in the case of railways, per train mile run and per ton carried ; in gas works, per ton of coal carbonised and per thousand cubic feet of gas sold ; in electric tramways, per kw. hour and per car mile.

The following is a form applicable to Electric Tramway undertakings recommended by the Departmental Committee on Local Authorities' Accounts, 1907.

ILLUSTRATION—

ABSTRACT OF POWER EXPENSES.

	Average per Kw. Hour.	Average per Car Mile.	£ s d.
Salaries and Wages			
Fuel			
Water..			
Oil and Waste			
Miscellaneous Supplies			
Repairs to Steam Plant			
,, Electrical Plant			
,, Ducts, Feeder Cables, &c.			
,, Power and Sub-Station Buildings			
Total to Revenue Account..			
Proportion of Rents, Rates and Taxes			
,, Insurance Premiums			
,, General Management			
Amount laid aside to meet Depreciation and Renewals			
Interest on Capital £——at £——%.			
Sinking Fund			

§ 6.—Percentages in Trading Accounts.

The utilisation of percentages in connection with Cost Accounts has been described in this Chapter, and it may be convenient here to

point out how this principle can be applied to trading businesses with material advantages.

The comparison of charges one year with another though very valuable must be considered with caution, since with a fluctuating turnover the relative value of the expenditure as compared with previous years cannot be determined by mere inspection. By the use of percentages, however, the percentage which each item bears to the turnover can be compared with the percentage that the corresponding item bears to the turnover of previous periods and by this means the true relative value thereon can be more readily and correctly appreciated.

The unit basis in such cases is usually £100 of Sales, and if the ratio that each principal item of expenditure bears to £100 of sales is calculated, a series of percentages will be obtained which can be compared with those of previous periods, thus enabling any rise or fall to be located and inquired into.

The percentage of gross profits on turnover, in the case of a manufacturing or trading business, is a very important figure to ascertain, not only for the purpose of fixing the selling price or making contracts, but also as a check upon the stock. If the percentage of gross profit rises as compared with previous periods, and this is not due to a reduction in the cost of materials or labour, or an increase in selling price, it is probable that the stock is erroneous, either having been taken at too high a price, or items having been included which have not been brought into account in the Purchases.

It is apparent that the percentage of Gross Profit to turnover represents the difference between the percentage of Materials, Wages, &c., to turnover, and the unit basis of 100. If these percentages are shown upon the accounts, it is convenient to adjust the opening and closing Stocks into the Materials Account in the Impersonal Ledger, showing only in the Trading Account the net amount of Materials consumed, as in this way the precise percentage of Materials consumed per unit of sales can be arrived at. If this is not done, the opening and closing stocks must be adjusted with the Materials for the purpose of calculation.

Other percentages of importance are those in respect of Manufacturing Wages, Travellers' Commission and Expenses, Trade Expenses, Bad Debts, &c.

Where the number of Impersonal Accounts is very numerous, it is usual to group the items into classes, and calculate the percentage that the total of each class bears to the unit of sales. Wherever possible, however, it is desirable to show the percentage in respect of each item of expenditure.

Where this system is adopted, the Trading Account should be provided with columns to show these percentages, placed against the money columns, and, for the purpose of comparison, both money and percentage columns should be provided, to contain the figures for the corresponding period in the previous year.

Although as indicated the usual method is to calculate the percentages on the turnover it can be made on other bases, *e.g.*, on the prime cost, on the gross profit, &c. An alternative method in the case of a Manufacturing business is to calculate the percentage on the Sales adjusted by the difference in Manufactured Stocks, particularly where these fluctuate to any extent; but for facility and convenience there is no doubt that to calculate on the turnover is the most generally useful method and provides very considerable and reliable information.

ILLUSTRATION—

Dr. TRADING AND PROFIT AND LOSS ACCOUNT *Cr.*

FOR THE YEAR ENDING 31ST DECEMBER, 1919.

Year 1918.	Per cent. on Sales.		Per cent. on Sales.	Year 1919.	Year 1918.	Per cent. on Sales.		Per cent. on Sales.	Year 1919.
£ s. d.				£ s. d.	£ s. d.				£ s. d.
52,130 0 0	52·13	To Materials ..	52·96	63,552 0 0	100,000 0 0	100·00	By Sales ..	100·00	120,000 0 0
11,840 0 0	11·84	" Wages ..	11·61	13,932 0 0					
36,030 0 0	36·03	" Balance, being Gross Profit	35·43	42,516 0 0					
£100,000 0 0	100·00		100·00	£120,000 0 0	£100,000 0 0	100·00		100·00	£120,000 0 0
9,900 0 0	9·90	To Travellers' Commission and Expenses	9·30	11,160 0 0	36,030 0 0	36·03	By Gross Profit	35·43	42,516 0 0
3,800 0 0	3·80	" Salaries ..	3·42	4,104 0 0					
3,050 0 0	3·05	" Trade Expenses ..	3·10	3,720 0 0					
2,590 0 0	2·59	" Repairs and Renewals ..	2·43	2,916 0 0					
1,600 0 0	1·60	" Advertising ..	1·75	2,100 0 0					
1,870 0 0	1·87	" Rent, Rates and Taxes ..	1·55	1,860 0 0					
1,460 0 0	1·46	" Bad Debts ..	1·04	1,248 0 0					
1,100 0 0	1·10	" Discount ..	1·12	1,344 0 0					
2,150 0 0	2·15	" Depreciation	1·96	2,352 0 0					
8,510 0 0	8·51	" Net Profit ..	9·76	11,712 0 0					
£36,030 0 0	36·03		35·43	£42,516 0 0	£36,030 0 0	36·03		35·43	£42,516 0 0

§ 7.—Standardisation of Accounts.

By Standardisation of Accounts is meant the drafting and presentation of accounts of similar businesses on the same plan, so that a comparison of one set of accounts with another can be made.

It will generally be found that in the case of a business with separate departments, each with its own accounts, the division of the nominal accounts will be similar in respect of each department, thus presenting to the proprietors of the business similar features by which the departmental progress can be judged.

As between businesses owned by different proprietors, however, Standardisation is not generally adopted since the requirements of the owners of the business vary so much, having regard to particular circumstances and requirements. The development of Accounting Science has led to many general features in the form of accounts being usually adopted by businesses of importance, but a rigid Standardisation is not usually feasible even in businesses of the same class.

Public Undertakings such as Railways, Gas and Electric Companies, Insurance Companies, Hospitals, &c., work under Standardised forms of Accounts in most cases, and the result of this is that every factor in conducting the business enterprise or institution concerned can be compared with others of a similar public character, thereby affording considerable information to the Management of such undertakings *inter se* and to the public generally.

SYNOPSIS OF CHAPTER XII.

THE DOUBLE ACCOUNT SYSTEM.

CHAPTER XII.

THE DOUBLE ACCOUNT SYSTEM.

§ 1.—Definition of the Double Account System.

The Double Account System is a system of account used by Companies formed generally under special Act of Parliament to construct and work undertakings of a public nature, involving heavy permanent capital expenditure. The object of the system is to show what capital has been raised for the purpose of the undertaking, and what capital has been expended upon the undertaking, rather than to show the present value of the assets at any given date, which latter is the object of the Single Account System.

In order to do this clearly the Balance Sheet is in effect divided up into two parts, the first being called the Capital Account, and showing upon the credit side the capital receipts to date, and upon the debit side the expenditure to date, the balance or totals of each side being carried to the Balance Sheet proper, which contains in addition the floating assets and liabilities, revenue balances, reserves, &c.

Provision for depreciation is not made in the usual way, the principle being to charge up to revenue all repairs, renewals and replacements as and when they are made. In many cases, however, Depreciation and Renewal Funds are raised in order to avoid the necessity of charging the whole cost of heavy renewals to Revenue in any one period.

The phrase "Double Account" must not be confused with the phrase "Double Entry." Double entry is applied to the Double Account System in the same way as to the Single Account System, and Ledger Accounts are kept of each class of Capital expenditure and Capital receipts. The Capital Account itself is not a Ledger Account, but is prepared from the Capital balances standing in the books. For this

purpose it is convenient to utilise a separate Capital Ledger containing only those items which go to make up the Capital Account. Thus it will be seen that the outstanding features in the Double Account System only become apparent in the preparation of the final accounts, and do not affect the actual book-keeping.

It should also be noted that the Double Account System is not primarily concerned with the distinction between Capital and Revenue, but rather with the illustration of the manner in which the Capital Receipts raised for the purpose of the undertaking have been applied. Every system of accounts worthy of the name must necessarily distinguish between Capital and Revenue Expenditure.

§ 2.—Treatment of Capital Losses.

Under the strict theory of the Double Account System all Capital Expenditure is shown in the Capital Account, whether or not it continues to be represented by assets. Losses on Capital Account, therefore, occasioned by the abandonment of assets which can be no longer profitably utilised, or by the depreciation of assets which are not required to be renewed, are not provided for. In some cases this may be unsound from a financial point of view, and although no provision is made for such loss in the statutory forms of account, it is desirable that the same should be ultimately provided for out of revenue.

A good method of doing this is to charge the loss to the Reserve Account (if any), the amount being credited to the Asset Account.

The amount so written off will be shown as a deduction in the Capital Account against the item to which it relates.

§ 3.—Renewal and Depreciation Funds.

It has already been said that depreciation of assets requiring renewal is not provided for in the usual manner by debiting revenue and crediting the asset account, but that all repairs, renewals and replacements are charged to revenue as and when they arise. This rule, however, is subject to variation in practice.

It will be apparent that if no provision were made for large renewals and replacements until they actually occurred, the revenue of that period would be burdened with a charge out of all proportion thereto, which in many cases might have the effect of altogether preventing the payment of a dividend in respect of that period.

During the early years of an undertaking working under this system, it is clear that the renewals and replacements in respect of the principal assets, such as Rolling Stock, Plant, &c., will be comparatively light, and unless provision is made for future renewals, the profit to the credit of revenue account will appear to be considerably larger than is actually the case, and will admit of dividends being paid which the Company would not have been able to pay had proper provision for renewals been made. In actual cases where this policy has been pursued, dividends on the Ordinary stocks have been largely reduced, and in some cases altogether suspended, as soon as those heavy replacements became necessary, and had to be met out of current revenue.

It is unfortunate that there is no statutory provision making it compulsory to provide for future renewals; but at the same time, there is nothing to prevent companies working under the Double Account System from forming proper Renewal Funds during the early years of the undertaking for the future replacement of their assets, and this should certainly be done.

After a certain period, if the undertaking is sufficiently large, the renewals will average from year to year, and further additions to the Renewal Fund may cease to be necessary.

Provision is made in the case of Gas and Electric Light Companies for the formation of Depreciation Funds in respect of leasehold works, and in the case of Electric Light Companies in respect of buildings, plant and machinery also. These funds should be represented by specific investments, and they are created by debiting revenue each year and crediting the Fund Account. When renewals take place the same will be charged to the Depreciation Fund Account.

In many instances, replacements take place which involve an extension of the original asset, and the question then arises as to what

proportion of the replacement can be charged to capital as representing the value of the extension, and what proportion should be charged to revenue. The method recommended in such cases is as follows :—The present cost of replacing the asset as it stands should be estimated, and such amount should be charged to revenue, whether or not it is more than the original cost of the asset. The balance of the expenditure can be charged to Capital as representing the cost of extension. Any amount received in respect of the break-up value of the asset replaced should be credited to revenue against the cost of replacement.

ILLUSTRATION—

A Railway Station originally costing £60,000 is replaced by a new and enlarged Station costing £140,000, £6,000 being realised from the sale of old materials. The estimated cost of replacing the old Station as it stood was £75,000. How should the £140,000 be apportioned as between Capital and Revenue ?

£75,000, the estimated cost of replacement of the Station as it stands, should be charged to Revenue, as against which can be set the £6,000 realised from the sale of old materials, leaving a net charge of £69,000. £65,000 will be debited to Capital as representing the cost of extension, making the total debit to Capital in respect of the Station £125,000.

Note to Illustration.

The above method is that adopted by the leading Railway Companies in this country, but it is contended by some authorities that it is only necessary to charge the original cost of the asset to Revenue, any expenditure on replacement in excess thereof being charged to Capital in addition to the cost of extension. It cannot be said that such a course is incorrect, although it has the effect of charging expenditure to Capital, which will not increase the earning capacity of the concern. The treatment of such cases in practice will largely depend on the financial position of the Company.

§ 4.—Conversion of Capital.

Many Companies have found it desirable to split their Ordinary stock into Preferred and Deferred Ordinary stock. This may be done in order to make the stock more marketable, and to enable the holders to be more certain of receiving a regular rate of dividend on, at any rate, a portion of their investment. As a result, the portion received in Preferred Converted stock represents the investment part of the holding, whereas the portion received in Deferred Converted stock represents the speculative part of the holding, and shareholders who do not desire to hold the latter can sell.

In the case of Railway Companies, this conversion is usually carried out under the general provisions of § 13 of the Regulation of Railways Act, 1868, subject to any variation in the Special Act of the Railway Company under which most conversions are effected.

The section referred to above is as follows :—

Any Company which in the year immediately preceding has paid a dividend on their Ordinary stock of not less than £3 per cent. per annum may, pursuant to the resolution of an extraordinary general meeting, divide their paid-up Ordinary stock into two classes, to be and to be called, the one Preferred Ordinary stock, and the other Deferred Ordinary stock, and issue the same subject and according to the following provisions, and with the following consequences (that is to say) :—

Preferred and Deferred Ordinary stock shall be issued only in substitution for equal amounts of paid-up Ordinary stock, and by way of division of portions of Ordinary stock into two equal parts.

There are further sub-sections, but the detail of these is usually varied by powers taken under the Special Act.

It will be seen that for every £100 of Ordinary stock an equal amount must be issued of Preferred and Deferred Converted stock, and, as a rule, £100 of each stock is issued for each original £100 of Ordinary stock. As a result, for each nominal amount of £100 there is now a nominal amount of £200, so that the conversion is equivalent to the issue of new stock at a discount of 50 per cent.

To comply with the prescribed form of Accounts the nominal addition to capital must be shown on the credit side of the Capital Account as such, and a corresponding item shown on the debit side as "cost of conversion."

ILLUSTRATION—

A Railway Company converts £1,000,000 Ordinary stock issued at a discount of 10 per cent. into equal portions of Preferred Converted Ordinary stock and Deferred Converted Ordinary stock, issuing £100 of each class for each £100 of original stock.

Show how this transaction should appear in the printed accounts.

SHARE CAPITAL AND STOCK CREATED AS PER STATEMENT No. 1 (*a*), SHOWING THE PROPORTION ISSUED.

Description.	Amount Created.	Amount Issued.	Nominal Additions to or Deductions from Capital.	Amount on which the Dividend is Payable.
	£	£	£	£
Preferred Converted Ordinary Stock	1,000,000	1,000,000	1,000,000	1,000,000
Deferred Converted Ordinary Stock	1,000,000			1,000,000

The Total of the "Amount Issued" column, will appear to the credit of the Receipts and Expenditure on Capital Account.

§ 5.—The Statutory Forms of Railway Companies' Accounts.

The form of Accounts for Railways was originally prescribed by the Regulation of Railways Act, 1868, but in place of these new forms have been provided by the Railway Companies (Accounts and Returns) Act, 1911. These forms are as follows:—

Part 1. No. 1. (*a*) Nominal Capital authorized and created by the Company.
" " 1. (*b*) Nominal Capital authorized and created by the Company jointly with some other Company.
" " 1. (*c*) Nominal Capital authorized and created by some other Company on which the Company either jointly or separately guarantees fixed dividends.
" " 2. Share Capital and Stock created as per Statement No. 1 (*a*) showing the proportion issued.
" " 3. Capital raised by Loans and Debenture Stock.
" " 4. Receipts and Expenditure on Capital Account.
" " 4. (*a*) Subscriptions to other Companies.
" " 5. Details of Capital Expenditure.
" " 6. Estimate of further expenditure on Capital Account.
" " 7. Capital powers and other assets available to meet further expenditure on Capital Account.
" " 8. Revenue Receipts and Expenditure of the whole undertaking.
" " 9. Proposed appropriation of net income.
" " 9. (*a*) Statement of Interim Dividends paid.

Part 1. No. 10. Receipts and Expenditure in respect of Railway working (supported by Abstracts A, B (1, 2, 3), C, D, E, F, G, H, J, giving details of the principal headings of Income and Expenditure.

,, ,, 11. Receipts and Expenditure in respect of Motor Omnibuses and other passenger vehicles not running on the railway.

,, ,, 12. Receipts and Expenditure in respect of Steamboats.

,, ,, 13. Receipts and Expenditure in respect of Canals.

,, ,, 14. Receipts and Expenditure in respect of Docks, Harbours and Wharves.

,, ,, 15. Receipts and Expenditure in respect of Hotels and all Refreshment Rooms and Cars where catering is carried on by the Company.

,, ,, 16. Receipts and Expenditure in respect of other separate businesses carried on by the Company.

,, ,, 17. Electric Power and Light Accounts.

,, ,, 18. General Balance Sheet.

Part 2 consists of Statistical Abstracts, and is followed by certificates of the responsible officers as to the upkeep of the whole of the Company's property.

The more important of these forms only are given.

No. 2.—SHARE CAPITAL AND STOCK CREATED, AS PER STATEMENT No. 1 (*a*), SHOWING THE PROPORTION ISSUED.

Description.	Amount created.	Amount issued.	Nominal additions to or deductions from Capital.	Amount on which Dividend is payable	Amount which does not rank for Dividend until a future date.	Calls in arrear.	Amount uncalled.	Amount unissued.
[Each class of shares and stock to be stated in order of date of creation, with the preferential or fixed dividends, if any, to which it is entitled, and any other conditions attached to it.]	£	£	£	£	£	£	£	£
Total								

NOTE.—A column to be provided where necessary between "Amount Created" and "Amount Issued" to show "Additional Stock Issued to provide Authorized Money."

Dr. No. 4.—RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT. *Cr*

To Expenditure.	Amount expended to——	Amount expended during Year, as per No. 5.	Total.	By Receipts.		Amount received to——	Amount received during Year.	Total.
	£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.
Lines open for Traffic ..				Shares and Stocks (No. 2) ..				
Lines not open for Traffic :—								
New Lines								
Widening of existing Lines								
Lines leased								
Lines jointly owned				Loans (No. 3)				
Lines jointly leased								
Rolling Stock								
Manufacturing and repairing Works and Plant :—								
Land and Buildings ..				Debenture Stock (No. 3) ..				
Plant and Machinery ..								
Total Capital expended upon Railway ..					£			
				Premiums on Shares and Stocks ..				
Horses								
Road Vehicles employed in the collection and delivery of parcels, goods, and passengers :—				Premiums on Debenture Stock ..				
1. Goods and Parcels Road Vehicles ..								
2. Passenger Road Vehicles				Total Premiums ..				
Steamboats								
Canals								
Docks, Harbours, and Wharves								
Hotels				Discounts on Shares and Stocks ..				
Electric Power Stations, &c.								
Land, Property, &c., not forming part of the Railway or Stations :—								
(*a*) Used in connexion with Railway working				Discounts on Debenture Stock ..				
(*b*) Not used in connexion with Railway working ..								
Other Industries (to be stated separately)				Total Discounts ..				
Subscriptions to Other Companies (for details, *see* Table No. 4 (*a*))								
Special Items								
				Balance of Premiums and Discounts				
TOTAL EXPENDITURE ..				TOTAL RECEIPTS ..				
To Balance				By Balance				
TOTAL				TOTAL				

No. 8.—REVENUE RECEIPTS & EXPENDITURE OF THE WHOLE UNDERTAKING.

See Statement.		Gross Receipts.	Expenditure.	Net Receipts.	Year 19 . Gross Receipts.	Year 19 . Expenditure.	Year 19 . Net Receipts.
		£ s. d.	£ s. d.	£ s. d.	£	£	£
10	Railway						
11	Omnibuses and other passenger vehicles not running on the railways ..						
12	Steamboats						
13	Canals						
14	Docks, harbours and wharves						
15	Hotels and refreshment rooms and cars, where catering is carried on by the Company						
16	Other separate businesses carried on by the Company (in detail)						
	Total .. ..£						

Miscellaneous Receipts (Net):—		
Rents from houses and lands		
Rents from hotels		
Other rents, including lump-sum tolls		
Interest and dividends from investments in other companies (in detail)		
Transfer fees		
General interest		
Special items		
Total Net Income ..£		

No. 9.—PROPOSED APPROPRIATION OF NET INCOME.

		——	Year 19 .
		£ s. d.	£
Balance brought forward from last year's Account			
Net Income (as per Statement No. 8)			
Appropriation from Reserve			
Total .. .. .. £			
Deduct—Interest, rentals and other fixed charges (to be stated by each Company in order of priority):—	£ s. d		
Interest on Superannuation and other Funds			
Rent charges (or feu duties) and Annuities			
Chief rents, wayleaves, &c., including lump-sum tolls			
Interest on Loans			
Interest on Debenture Stocks (details)			
Rent of and guaranteed Interest on Leased and Worked Lines ..			
Interest on Lloyd's Bonds..			
General Interest			
Special items (if any)			
Total .. £			
Balance after Payment of Fixed Charges:— Appropriation to Reserve and other special purposes:— (Details)	£ s. d.		
Total .. £			
Dividends on Guaranteed and Preference Stocks:— (Details)			
Total .. £			
Balance available for Dividends on Ordinary Stock:— (Details)	£ s. d.		
Total .. £			

No. 9 (*a*).—STATEMENT OF INTERIM DIVIDENDS PAID.

		£ s. d.	£
Balance available for Dividends, Year 19			
Deduct—	£ s. d.		
Interim Dividends paid (particulars)			
Undivided Balance at 31st December, carried to Balance Sheet			

No. 10.—RECEIPTS AND EXPENDITURE IN RESPECT OF RAILWAY WORKING.

Dr. *Cr.*

To Expenditure.	—	Year 19 .	Percentage of Traffic Receipts. ..	..
See Abstracts.	£ s. d.	£	Per cent.	Per cent.
A. Maintenance and renewal of Way and Works				
B. Maintenance and renewal of Rolling Stock :— £ s. d.				
(1). Locomotives ..				
(2). Carriages				
(3). Wagons				
£ s. d.				
C. Locomotive Running Expenses				
D. Traffic Expenses ..				
E. General Charges ..				
Law Charges				
Parliamentary Expenses ..				
Compensation (accidents and losses) :— £ s. d.				
Passengers				
Workmen				
Damage and loss of Goods, Property, &c. ..				
Rates				
Taxes				
Government Duty				
G. Running Powers (Balance, Debit or Credit)				
Total Traffic Expenditure £				
J. Joint Lines*				
Miscellaneous				
Total Expenditure £				
Net Receipts .. £				
TOTAL .. £				

By Gross Receipts.	—	—	Year 19 .	Percentage of Traffic Receipts ..	..
See Abstracts.	£ s. d.	£ s. d.	£	Per cent.	Per cent.
Passenger Train Traffic :—					
Ordinary Passengers ..					
First Class					
Second Class					
Third Class					
Season Tickets—					
First Class					
Second Class					
Third Class					
Workmen's Tickets ..					
Total Receipts from Passengers ..					
Mails					
Parcels up to 2 cwt., Parcels Post, and Excess Luggage					
Other Merchandise by Passenger Trains ..					
F. *Less* Expenses of Collection and Delivery					
Total Passenger Train Receipts					
Goods Train Traffic :— £ s. d.					
Merchandise ..					
F. *Less* Expenses of Collection and Delivery ..					
Live Stock					
Coal, Coke and Patent Fuel					
Other Minerals					
Total Goods Train Receipts £					
Total Traffic Receipts £					
H. Mileage, Demurrage, and Wagon Hire					
J. Joint Lines*					
Miscellaneous					
TOTAL .. .. £					

NOTE.—Gross receipts to include the whole of the receipts from traffic carried over the company's lines, except where (*a*) the traffic is carried over the company's line by trains of other companies and no annual payment is made therefor, or where (*b*) the payment made is by way of a fixed rent. The proportion of traffic receipts accruing to other companies in respect of running powers exercised by them over the company's lines not to be treated as a deduction from the company's traffic receipts in this statement, but to be entered as a payment in the Running Powers Account (Abstract G). The proportion of the traffic receipts accruing to the company in respect of trains run by the company over the lines of other companies to be excluded from the traffic receipts in this statement, and entered as receipts in the Running Powers Account.

* Under this heading should be entered only the Expenditure or Receipts of jointly owned and jointly leased lines in respect of which the Accounts are prepared by or for the joint committee and are not already embodied in those of the parent companies (*see* Abstract J). In the case of other joint lines, the company's proportion of the Revenue and Expenditure to be spread over the various heads on the respective sides of this Account.

Dr. No. 18.—GENERAL BALANCE SHEET. *Cr.*

—	—	Year 19 .	—	—	Year 19 .
	£ s. d.	£		£ s. d.	£
To Capital Account, Balance at Credit thereof, as per Account No. 4 ..			By Capital Account, Balance at Debit thereof, as per Account No. 4		
Amount due to Bankers			£ s. d.		
Temporary Loans and Calls paid in advance			Cash at Bankers and in Hand		
Lloyd's Bonds			Cash on Deposit, at Interest		
Unpaid Interest and Dividends ..					
Interest and Dividends payable or accruing and provided for ..			Investments in Consols and Government Securities		
Amount due to Railway Companies and Committees			Investments in Stocks and Shares held by the Company, not charged as Capital Expenditure		
Amount due to Railway Clearing Houses			Investment of Superannuation and other Provident Funds ..		
Savings Bank			Stock of Stores and Materials ..		
Superannuation and other Provident Funds			Outstanding Traffic Accounts ..		
Accounts Payable			Amount due by Railway Companies and Committees ..		
Liabilities accrued			Amount due by Railway Clearing Houses		
Miscellaneous Accounts			Amount due by Postmaster-General		
Special Items (to be detailed) ..			Accounts Receivable		
Fire Insurance Fund			Miscellaneous Accounts		
Depreciation Funds— Railway			Suspense Accounts (if any) to be enumerated		
Steamboats (including Insurance Fund)			Special Items (to be detailed) ..		
Other Businesses					
General Reserve Fund					
£ s. d.					
Balance available for Dividends and Reserve, as per Account No. 9 ..					
Less Interim Dividends paid as per Statement No. 9 (*a*)					

ILLUSTRATION—

The following is the Trial Balance of the New Railway Company, after the completion of the Revenue Account for the year ended 31st December, 1919.

	£ s. d.	£ s. d.
3½ % Preference Stock..		450,000 0 0
Ordinary Stock		750,000 0 0
4 % Debenture Stock		300,000 0 0
Lines open for Traffic	1,278,000 0 0	
Lines in course of construction	7,500 0 0	
Working Stock (Engines, Carriages, &c.)	195,000 0 0	
Contribution to Joint Lines	75,000 0 0	
Premiums on Ordinary Stocks		37,500 0 0
Purchase of Grand Canal	7,500 0 0	
Cash at Bank	7,500 0 0	
Stock of Stores and Materials	10,000 0 0	
Outstanding Traffic Accounts	20,000 0 0	
Due from other Companies	1,500 0 0	
Miscellaneous Accounts	6,000 0 0	
Debts due to other Companies		750 0 0
Accounts Payable		30,000 0 0
Fire Insurance Fund		2,250 0 0
Superannuation Fund		7,500 0 0
Balance to Credit of Net Revenue Account		30,000 0 0
	£1,608,000 0 0	£1,608,000 0 0

During the year there was an issue of £15,000 3½ per Cent. Preference Stock at par, which was fully subscribed and paid up; also of £30,000 Ordinary Stock fully subscribed and paid up at a premium of 5 per cent. The expenditure on Lines open to Traffic was £37,500, on Lines in course of Construction £1,500, and on Working Stock £7,500.

Make out Capital Account and Balance Sheet in proper form.

Dr. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT. *Cr.*

	Amount expended to 31st Dec., 1918.	Amount expended during year.	TOTAL.
	£ s. d.	£ s. d.	£ s. d.
To Expenditure :—			
On Lines open for Traffic	1,240,500 0 0	37,500 0 0	1,278,000 0 0
On Lines in course of construction ..	6,000 0 0	1,500 0 0	7,500 0 0
Working Stock ..	187,500 0 0	7,500 0 0	195,000 0 0
Subscriptions to other Railways	75,000 0 0		75,000 0 0
Purchase of Grand Canal	7,500 0 0		7,500 0 0
	£1,516,500 0 0	£46,500 0 0	£1,563,000 0 0
			£1,563,000 0 0

	Amount received to 31st Dec., 1918.	Amount received during year.	TOTAL.
	£ s. d.	£ s. d.	£ s. d.
By Receipts :—			
Shares and Stock per Account No. 2 ..	1,155,000 0 0	45,000 0 0	1,200,000 0 0
Debenture Stock per Account No. 3 ..	300,000 0 0		300,000 0 0
Premiums on Stocks sold	36,000 0 0	1,500 0 0	37,500 0 0
	£1,491,000 0 0	£46,500 0 0	£1,537,500 0 0
By Balance			25,500 0 0
			£1,563,000 0 0

Dr. GENERAL BALANCE SHEET ON 31ST DECEMBER, 1919. *Cr.*

	£ s. d.
To Debts due to other Companies ..	750 0 0
,, Accounts payable	30,000 0 0
,, Fire Insurance Fund	2,250 0 0
,, Superannuation Fund	7,500 0 0
,, Net Revenue Account :—	
Balance at credit thereof	30,000 0 0
	£70,500 0 0

	£ s. d.
By Capital Account :—	
Balance at debit thereof	25,500 0 0
,, Cash at Bank	7,500 0 0
,, Stock of Stores and Materials ..	10,000 0 0
,, Outstanding Traffic Accounts ..	20,000 0 0
,, Amounts due by other Companies ..	1,500 0 0
,, Miscellaneous Accounts	6,000 0 0
	£70,500 0 0

§ 6.—The Statutory Forms of Gas Companies' Accounts.

Under the Gas Works Clauses Act, 1871, certain forms of Account are prepared for the use of Gas Companies as follows :—

(*a*) Statement of Share Capital.
(*b*) Statement of Loan Capital.
(*c*) Capital Account.
(*d*) Revenue Account.
(*e*) Profit and Loss Account (Net Revenue).
(*f*) Reserved Fund Account.
(*g*) Statement of Coals.
(*h*) Statement of Residual Products.
(*i*) General Balance Sheet.

The more important of these forms only are given.

Dr. C.—CAPITAL ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 19 . *Cr.*

——	Expenditure to 31st Dec., 19	Expended this year.	Total to 31st Dec., 19	——	Certified Receipts 31st Dec., 19	Received during year.	Total Receipts to 31st Dec., 19
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Expenditure to 31st December, 19 *Since that date.*				1. By Ordinary Shares of £ each..			
2. To Lands acquired, including law charges				2. ,, Do. of £ each..			
3. ,, New Buildings, Manufacturing Plant, Machines, Storage Works and other structures connected with manufacture				3. ,, Preference Shares of £ each			
4. ,, New Mains and Service Pipes (not being in place of old ones), including laying same, paving and other works connected with distribution				4. ,. Debenture Stock			
5. ,, New Meters (not in place of old ones), including fixing				5. ,, Mortgages and Bonds			
6. ,, Cost of Promoting Special Act..				6. ,, Amounts received in anticipation of calls			
7. ,, Special Items (if any)							
Total Expenditure							
To Balance of Capital Account ..							
£				Total .. .. .. £			

Dr. D.—REVENUE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 19 . Cr.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To MANUFACTURE OF GAS :—			BY SALE OF GAS :—		
1. Coals, including dues, carriage, unloading, and all expenses of depositing same on works			1. Common gas (cubic feet) at / per 1,000 cubic feet		
2. Purifying materials, oil, water and sundries at works			2. Cannel gas (cubic feet) at / per 1,000 cubic feet		
3. Salaries of engineers, including chief engineer (if any), superintendents and officers at works			3. Public lighting and under contracts ..		
4. Wages and gratuities at works			4. Rental of meters		
5. Repairs and maintenance of works and plant (including renewal of retorts), machines, apparatus, tools, materials and labour			BY RESIDUAL PRODUCTS :—		
			5. Coke, *less* labour and cartage		
			6. Breeze ditto . ..		
			7. Tar ditto		
			8. Ammoniacal liquor ditto		
Less old materials sold					
To DISTRIBUTION OF GAS :—			9. By Rents		
6. Salaries of surveyor, chief inspector, inspectors, assistant inspectors and clerks in light office			10. By Transfer fees		
			By other items (if any)		
7. Repairs, maintenance and renewal of mains and of service pipes, including materials, laying and paving, and labour					
8. Repairing, renewing and refixing meters..					
To PUBLIC LAMPS :—					
9. Lighting and repairing					
To RENTS, RATES AND TAXES :—					
10. Rents					
11. Rates and Taxes					
To MANAGEMENT :—					
12. Directors' allowances					
13. Salaries of secretary, accountant and clerks, office-keepers and messengers					
14. Collectors' commission or salaries.. ..					
15. Stationery and printing					
16. General establishment charges and incidentals					
17. Auditor					
To LAW AND PARLIAMENTARY CHARGES :—					
18. Law					
19. Parliamentary (oppositions)					
20. To Depreciation Fund for works on leasehold lands (if any)					
21. To Bad Debts					
To other items (if any)					
Total Expenditure	£		Total Receipts	£	
Balance carried to Profit and Loss Account E.					

E.—PROFIT AND LOSS ACCOUNT (NET REVENUE)

Dr. FOR THE YEAR ENDED 31ST DECEMBER, 19 Cr.

	£ s. d.		£ s. d.
1. To Amount carried to Reserved Fund Account F (if any) from Profits of 19		1. By Balance of net profit brought from last Account (31st Dec., 19) ..	
2. ,, Interest on temporary Loans and Moneys received in anticipation of Calls		2. ,, Amount drawn from Reserved Fund (if any)	
3. ,, Do. on Mortgages and Bonds accrued to 31st Dec., 19		*Less* Dividend paid for the half-year ended 31st Dec., 19 ..	
4. ,, Do. on Debenture Stock to do.		3. ,, Balance brought from Revenue Account D, being profit for year to Dec., 19 ..	
5. ,, Half-year's Dividend on 1st Preferential to 30th June, 19		4. ,, Interest on Moneys deposited	
6. ,, Do. 2nd Preferential to do.			
7. ,, Do. on Ordinary Shares at per cent.			
,, Balance of net Profit to be carried to next Account subject to half-year's Dividends to 31st Dec., 19			
	£		£

F.—RESERVED FUND ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DECEMBER, 19 . *Cr.*

	£ s. d.		£ s. d.
1. To Amount (if any) carried to Profit and Loss Account E to make up deficiencies of Dividends to 31st Dec., 19		1. By Balance brought from last Account	
2. " Amount paid for extraordinary claim or demand (if any)		2. " Balance brought from Profit and Loss Account E	
3. " Amount of balance to be carried to next Account		3. " Interest on amount invested	
	£		£

Like Accounts must be given for Depreciation Fund for works on Leaseholds (if any).

I.—GENERAL BALANCE SHEET

Dr. ON 31ST DECEMBER, 19 . *Cr.*

	£ s. d.		£ s. d.
1. To CAPITAL ACCOUNT :— Balance at Credit thereof (Account C) ..		1. By Cash at bankers	
2. " PROFIT AND LOSS ACCOUNT :— Balance at credit thereof (Account E) ..		2. " " on deposit or at interest	
3. " RESERVED FUND :— Balance at credit thereof (Account F) ..		3. " Coals for stock on hand, 31st Dec.,19	
4. " DEPRECIATION FUND (for works on leasehold lands) :— Balance at credit thereof (Account) ..		4. " Coke and Breeze, 31st Dec., 19 ..	
5. " Unpaid dividends		5. " Tar and other products, 31st Dec., 19	
6. " Interest accrued and unpaid on mortgages, bonds and debenture stock, and other loans, to 31st Dec., 19		6. " Sundry Stores, 31st Dec., 19 ..	
7. " Sundry Tradesmen and others, for amount due for coals, stores, &c., to 31st Dec., 19		7. " Gas Meter Rental; balance of this Account due to the Company on 31st Dec., 19 , *less* deposits and prepayments	
8. " WAGES AND CONTINGENCIES :— Amount due to 31st Dec., 19		8. " Coke and other residuals, 31st Dec., 19	
" Other items (if any)		9. " Sundry Accounts, 31st Dec., 19 ..	
		" Special items (if any), including investments..	
	£		£

§ 7.—The Statutory Forms of Electric Lighting Companies' Accounts.

Under the Electric Lighting Act, 1882, certain forms of account are prescribed by the Board of Trade for Electric Lighting Companies working under an Order or License as follows :—

(1) Statement of Share Capital.

(2) Statement of Loan Capital.

(3) Capital Account.

(4) Revenue Account.

(5) Net Revenue Account.

(6) Reserve Fund Account.

(7) Depreciation Fund Account.

(8) General Balance Sheet.

(9) Statement of Electricity Generated, Sold, &c.

The more important of these forms only are given.

[No. III.] CAPITAL ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19 . *Cr.*

——	Expenditure up to 31 Dec., 19	Expended during the Year.	Total Expenditure to 31 Dec., 19	——	Receipts up to 31 Dec., 19	Received during Year.	Total Receipts to 31 Dec., 19
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Expenditure to 31st December, 19				By Ordinary Shares of £			
Expenditure since that date.							
1. To Lands, including law charges incidental to acquisition				„ do. do. of £			
2. „ Buildings				„ Preference do. of £			
3. „ Machinery				„ Debenture Stock			
4. „ Accumulators at Generating and Distributing Stations				„ Mortgages and Bonds			
5. „ Mains, including cost of laying the mains				„ Amounts received in anticipation of Calls			
6. „ Transformers, Motors, &c. ..				„ Sale of Patents or Patent Rights, &c.			
7. „ Meters, and Fees for certifying under the Act				„ Other Receipts (to be specified) ..			
8. „ Electrical Instruments, &c. ..							
9. „ General Stores (cable, mains, lamps)							
10. „ Purchase of Patents or Patent Rights							
11. „ Cost of Licence, Provisional Order, &c.							
12. „ Special Items							
Total Expenditure ..							
To Balance of Capital Account	..	..					
		£				£	

Provision for Depreciation of Works is made by a debit of £ to Revenue Account transferred to Depreciation Fund Account No. VII.

Dr. [No. IV.] REVENUE ACCOUNT FOR THE YEAR ENDING 31ST DECEMBER, 19 . *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
A.—*To Generation of Electricity.*			1. By Sale of current per meter at per B. T. U.		
1. To Coals or other fuel, including dues, carriage, unloading, storing, and all expenses of placing the same on the works			2. „ Sale under Contracts		
2. „ Oil, waste, water and engine-room stores			3. „ Public lighting		
3. „ Proportion of Salaries of Engineers, Superintendents, and Officers, as certified by the Managing Director, Chairman or Engineer			4. „ Rental of meters and other apparatus on consumers' premises		
4. „ Wages and Gratuities at Generating Stations			5. „ Sale and repairs of lamps, arc or incandescent		
5. „ Repairs and Maintenance as follows:— £ s. d.			„ Sale and repairs of other apparatus ..		
1. Buildings			6. „ Royalties, licences, &c.		
2. Engines, boilers ..			7. „ Rents receivable		
3. Dynamos, exciters, transformers, motors, &c.			8. „ Transfer fees		
4. Other machinery, instruments and tools..			9. „ Other items (to be specified)		
5. Accumulators and accessories					
Less received for old materials					
6. To special items					
B.—*Distribution of Electricity.*					
1. To Proportion of Salaries of Superintendents and Officers, as certified by Managing Director, Chairman or Engineer ..					
2. „ Wages and Gratuities to Linesmen, Fitters, Labourers					
3. „ Repairs, Maintenance and Renewals of Mains of all classes, including Materials and laying the same .. *Less* Amounts refunded					
4. „ Repairs, Maintenance and Renewals of Transformers, Meters, Switches, Fuses and other apparatus on Consumers' Premises					
5. „ Repairs, Maintenance and Renewals of Apparatus at Distributing Stations ..					
C.—*To Public Lamps.*					
1. To Attending and Repairs					
2. „ Renewals of Lamps					
D.—*To Royalties, &c.*					
To Royalties, &c., payable for use of patents or patent processes					
E.—*To Rents, Rates and Taxes.*					
1. To Rents Payable					
2. „ Rates and Taxes					
F.—*To Management Expenses*					
1. To Directors' remuneration					
2. „ Salaries of Managing Engineers, Secretary, Accountants, Clerks, Messengers, as certified by Managing Director, Chairman or Engineer					
3. „ Salaries or Commissions of Collectors ..					
4. „ Stationery and printing					
5. „ General establishment charges					
6. „ Auditors of Company					
7. „ Auditor appointed under the provisions of the Order					
Carried forward			Carried forward ..		

Dr. [No. IV.—*continued.*] REVENUE ACCOUNT—*continued.* *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Brought over			Brought over		
G.—*To Law and Parliamentary Charges.*					
To Law Expenses					
H.—*To Depreciation.*					
1. To Depreciation in respect of Leasehold Works					
2. ,, Depreciation in respect of Buildings ..					
3. ,, Do. Plant, Machinery, &c.					
I.—*To Special Charges.*					
1. To Insurance, Superannuation, &c. ..					
2. ,, Expenses for Certification of Meters ..					
Total Expenditure					
Balance carried to Net Revenue					
	£			£	

Dr. [No. V.] NET REVENUE ACCOUNT. *Cr.*

	£ s. d.		£ s d.	£ s. d.	£ s. d
1. To Interest on Debentures accrued due to date		1. By Balance from last Account			
2. ,, Interest on Mortgages and Bonds accrued due to date		*Less* Dividends paid ..			
3. ,, Interest on Temporary Loans accrued due to date		*Less* Amount carried to Reserve Fund			
4. ,, Dividend on Preference Stocks		2. ,, Balance brought from Revenue Account No. IV...			
5. ,, Balance applicable to dividend on Ordinary Stock or Shares		3. ,, Interest on Money at Deposit ..			
£				£	

Dr. [No. VI.] RESERVE FUND ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
1. To Amount paid out for		1. By Balance brought from last Account	
2. ,, Amount of Balance to next Account ..		2. ,, Amount brought from Net Revenue Account	
		3. ,, Interest on Amount Invested .. .. .. (Description of Investments to be specified)	
£		£	

Dr. [No. VII.] DEPRECIATION FUND ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Bal		1. By Balance from last Account	
		2. ,, Interest on Investments	
		3. ,, Amount brought from Revenue Account (*see* No. IV. H.) .. .. (Description of Investments to be specified)	
		£	

Dr. [No. VIII.] GENERAL BALANCE SHEET. *Cr.*

	£ s. d.			£ s. d.
1. To Capital Account: Amount received as per Account No. III.		1. By Capital Account: Amount expended for Works as per Account No. III.	£ s. d.	
2. ,, Sundry Tradesmen and others, due on construction of Plant and Machinery, Fuel, Stores, &c., to 31st December, 19 ..		2. ,, Stores on hand at 31st December, 19 :—		
3. ,, Sundry Creditors on open Accounts		Coal		
4. ,, Net Revenue Account: Balance at credit thereof		Oils, waste, &c.		
5. ,, Reserve Fund Account: Balance at credit thereof		General		
6. ,, Depreciation Fund Account: Balance at credit thereof		3. ,, Sundry Debtors for amounts paid on account of contract in course of completion ..		
		4. ,, Preliminary Expenses		
		5. ,, Sundry Debtors for Current supplied to 31st December, 19		
		6. ,, Other Debtors		
		7. ,, Cash at Bankers :—		
		Messrs.		
		Messrs.		
		Messrs. (amount on deposit)		
		8. ,, Cash in hand		
£		£		

Chairman.

March, 19 . *Manager and Secretary.*

ILLUSTRATION—

Prepare a Revenue Account, Capital Account, and Balance Sheet from the following Trial Balance.

DYNAMO ELECTRIC LIGHTING COMPANY, LIMITED.

TRIAL BALANCE, 30TH JUNE, 1920.

1919. June 30. £ s. d.	Capital, Nominal, 10,000 Shares, £10 each.	£ s. d.	£ s. d.
20,000 0 0	Subscribed, 5,000 Shares, £10 each, £5 paid		25,000 0 0
15,000 0 0	Debentures, 6 % interest		15,000 0 0
1,000 0 0	Depreciation Fund		1,000 0 0
	Investments on Depreciation Fund Account	1,000 0 0	
9,300 0 0	Freehold Land	9,300 0 0	
4,000 0 0	Buildings	5,000 0 0	
6,000 0 0	Machinery at Station	10,000 0 0	
5,000 0 0	Mains	8,000 0 0	
1,000 0 0	Transformers, Motors, &c.	2,000 0 0	
500 0 0	Meters	1,500 0 0	
300 0 0	Electrical Instruments	400 0 0	
1,600 0 0	General Stores (Cables, Mains, Lamps) in stock	2,350 0 0	
250 0 0	Office Furniture	250 0 0	
	Coal and Fuel	1,900 0 0	
	Oil, Waste and Engine Room Stores	750 0 0	
	Coal, Oil and Waste, &c., in stock	100 0 0	
	Wages at Station	3,000 0 0	
	Repairs and Replacements	500 0 0	
	Rates and Taxes	300 0 0	
	Salaries of Secretary, Manager, &c.	1,500 0 0	
	Directors' Fees	1,000 0 0	
	Stationery, Printing and Advertising	600 0 0	
	Incidental Expenses	100 0 0	
	Law Charges	200 0 0	
	Sales by Meter		8,750 0 0
	Sales by Contract		5,000 0 0
	Meter Rents		300 0 0
	Sundry Creditors		700 0 0
	Sundry Debtors	3,000 0 0	
	Cash in hand and at Bank	3,300 0 0	
	Net Revenue Account		300 0 0
		£56,050 0 0	£56,050 0 0

Depreciation to be provided for on Buildings 2½ per cent., Machinery 7½ per cent., Mains 5 per cent., Transformers, &c., 10 per cent., Meters and Electrical Instruments 15 per cent. (on the opening balances).

Dr. CAPITAL ACCOUNT FOR THE YEAR ENDING 30TH JUNE, 1920. *Cr.*

	Expenditure up to 30th June, 1919.	Expended during the year.	Total Expenditure to 30th June, 1920.		Receipts up to 30th June, 1919.	Receipts during year.	Total Receipts to 30th June, 1920.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Freehold Land	9,300 0 0		9,300 0 0	By Ordinary Shares	20,000 0 0	5,000 0 0	25,000 0 0
„ Buildings	4,000 0 0	1,000 0 0	5,000 0 0	„ Debentures ..	15,000 0 0		15,000 0 0
„ Machinery	6,000 0 0	4,000 0 0	10,000 0 0				
„ Mains	5,000 0 0	3,000 0 0	8,000 0 0				
„ Transformers, Motors, &c.	1,000 0 0	1,000 0 0	2,000 0 0				
„ Meters	500 0 0	1,000 0 0	1,500 0 0				
„ Electrical Instruments, &c.	300 0 0	100 0 0	400 0 0				
„ General Stores, (Cables Mains, Lamps) ..	1,600 0 0	750 0 0	2,350 0 0				
„ Office Furniture ..	250 0 0		250 0 0				
Total Expenditure ..	£27,950 0 0	£10,850 0 0	£38,800 0 0	Total Receipts	£35,000 0 0	£5,000 0 0	£40,000 0 0
„ Balance of Capital Account			1,200 0 0				
			£40,000 0 0				£40,000 0 0

Dr. REVENUE ACCOUNT FOR THE YEAR ENDING 30TH JUNE, 1920. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Generation of Electricity—			By Sale of Current per Meter	8,750 0 0	
Coal and other Fuel ..	1,900 0 0		„ Ditto under Contracts	5,000 0 0	
Oil, Waste and Engine Room Stores	750 0 0				13,750 0 0
Wages at Station ..	3,000 0 0		„ Rental of Meters ..		300 0 0
Repairs and Replacements	500 0 0				
		6,150 0 0			
„ Rates and Taxes.. ..		300 0 0			
„ Management Expenses—					
Directors' Remuneration	1,000 0 0				
Salaries of Secretary, Manager, &c.	1,500 0 0				
Stationery, Printing and Advertising	600 0 0				
Incidental Expenses ..	100 0 0				
		3,200 0 0			
„ Law Expenses		200 0 0			
„ Depreciation— ..					
Buildings	100 0 0				
Machinery	450 0 0				
Mains	250 0 0				
Transformers, &c. ..	100 0 0				
Meters	75 0 0				
Electrical Instruments..	45 0 0				
		1,020 0 0			
„ Balance carried to Net Revenue Account ..		3,180 0 0			
		£14,050 0 0			£14,050 0 0

Dr. NET REVENUE ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Interest on Debentures accrued to date ..	900 0 0	By Balance from last Account	300 0 0
„ Balance applicable to Dividend	2,580 0 0	„ Balance from Revenue Account ..	3,180 0 0
	£3,480 0 0		£3,480 0 0

Dr. GENERAL BALANCE SHEET, 30TH JUNE, 1920. *Cr.*

	£	s.	d.		£	s.	d.
To Capital Account—				By Capital Account—			
Amount received as per Account ..	40,000	0	0	Amount expended as per Account	38,800	0	0
" Sundry Creditors..	700	0	0	" Stores on hand—			
" Debenture-holders for Interest.. ..	900	0	0	Coal, Oil, Waste, &c.	100	0	0
" Net Revenue Account—				" Sundry Debtors for Current supplied	3,000	0	0
Balance at credit thereof	2,580	0	0	" Investments on Depreciation Fund			
" Depreciation Fund Account—				Account	1,000	0	0
Balance at credit thereof	2,020	0	0	" Cash at Bankers and on hand ..	3,300	0	0
	£46,200	0	0		£46,200	0	0

SYNOPSIS OF CHAPTER XIII.

BANKRUPTCY, LIQUIDATION, AND RECEIVERSHIP ACCOUNTS.

§ 1.—THE PREPARATION OF A STATEMENT OF AFFAIRS IN BANKRUPTCY.

(*a*) Unsecured Creditors.
(*b*) Creditors fully secured.
(*c*) Creditors partly secured.
(*d*) Liabilities on Bills Discounted other than Debtor's own Acceptances for value
(*e*) Creditors for Rent, &c., recoverable by distress, and Preferential Creditors.
(*f*) Valuation of Assets.
(*g*) Book Debts.
(*h*) The Deficiency Account.
(*i*) Bankruptcy of Firms.

2.—THE ACCOUNTS OF A TRUSTEE IN BANKRUPTCY.

3.—DEEDS OF ARRANGEMENT.

4.—THE PREPARATION OF A STATEMENT OF AFFAIRS OF A COMPANY IN COMPULSORY LIQUIDATION.

5.—THE ACCOUNTS OF A LIQUIDATOR IN COMPULSORY LIQUIDATION.

6.—THE ACCOUNTS OF A LIQUIDATOR IN VOLUNTARY LIQUIDATION.

7.—RETURNS TO SHAREHOLDERS

8.—THE ACCOUNTS OF A RECEIVER.

CHAPTER XIII.

BANKRUPTCY, LIQUIDATION AND RECEIVERSHIP ACCOUNTS.

§ 1.—The Preparation of a Statement of Affairs in Bankruptcy.

Within three days of the Receiving Order, if made on the debtor's own petition, or within seven days if made on a creditor's petition, the debtor must lodge with the Official Receiver his Statement of Affairs. This must be compiled in the official form, and be accompanied by the following schedules of particulars :—

A. Unsecured creditors.

B. Creditors fully secured.

C. Creditors partly secured.

D. Liabilities of Debtor on bills discounted other than his own acceptances for value.

E. Contingent or other liabilities.

F. Creditors for rent, &c., recoverable by distress.

G. Preferential creditors for rates, taxes and wages.

H. Property.

I. Debts due to the Estate.

J. Bills of Exchange, Promissory Notes, &c., available as assets.

K. Deficiency Account.

In the illustration that follows, a *pro formâ* example of the front sheet of a Statement of Affairs and the Deficiency Account is given.

The method of preparing this Statement of Affairs falls very much on the lines of the preparation of a Statement of Affairs for the purpose of placing a system of books on a double entry basis. Where, however, the books have been kept on a double entry system, although the preparation of the statement will be greatly facilitated thereby, at the same time many points will require to be dealt with which would not arise in the preparation of a Balance Sheet in the ordinary manner. The principal of these are as follows :—

(a) Unsecured Creditors.

A schedule of these Creditors must be prepared in the prescribed form, containing particulars of name, address and occupation, the amount of the debt, the date when contracted, and the consideration given. All creditors who do not come under the other schedules must be included here, particularly the Bills Payable on which the Debtor is liable as acceptor for value, the necessary particulars of each bill being inserted ; Bank overdraft unsecured ; balance of Creditors for wages, &c., which exceed the limit allowed as a preferential payment.

(b) Creditors fully secured.

The schedule of these Creditors, in addition to containing the information necessary in respect of unsecured Creditors, must also contain particulars of the security, the date when same was given, the estimated value of the security, and the estimated surplus. On the liability side of the Statement of Affairs these Creditors will be shown in short, together with the security, and the surplus will be carried to the asset side.

(c) Creditors partly secured.

Similar particulars must be afforded in the schedule of these, and the balance unsecured shown. In the Statement of Affairs these Creditors are shown in short on the liability side, the security being deducted, and the balance unsecured, ranking against the estate, extended.

(d) Liabilities on Bills discounted other than Debtor's own acceptances for value.

The schedule of these must contain particulars of the acceptor's name, address and occupation, whether the Debtor is liable as drawer or endorser, the date when the bill falls due, the amount of the bill (accommodation bills being separated from other bills), the name, address and occupation of the holder (if known), and the amount expected to rank against the estate for dividend.

Bills Receivable discounted by the Debtor with his Bank or other parties will be included here, since the Debtor will be liable as drawer or endorser. If, however, it is expected that the acceptors will meet these bills in due course, nothing will be extended to rank against the estate for dividend.

The case of Accommodation Bills is more complicated, especially where there have been cross-transactions in these between the Debtor and another party. Briefly speaking, it may be said that the whole of these Accommodation Bills must be inserted, whether the Debtor is liable as drawer, acceptor or endorser. Each Accommodation Bill must be examined, to ascertain the precise nature of the liability attaching to it as regards the estate. If the estate is primarily liable on the bill, the amount must be extended to rank in full for dividend. If the Debtor is only liable as drawer or endorser, it will depend on the financial position of those primarily liable on the bill, as to how much (if any) of the amount should be extended to rank for dividend. If the party primarily liable dishonours the bill and becomes bankrupt, the holder will have a right of proof to the full extent of the bill against the estates of both parties, though he will not be entitled to receive dividends exceeding the total face value of the bill, together with interest and expenses.

As previously remarked, liabilities on Bills Payable accepted by the Debtor for value will be included in the list of Unsecured Creditors, and not in this schedule. In the Statement of Affairs the gross amount of liabilities on Bills Discounted other than the Debtor's own acceptances for value is shown in short, and only the amount expected to rank for dividend extended.

(e) Creditors for Rent, &c., recoverable by distress, and Preferential Creditors.

The schedules of these items must contain full particulars, and disclose the difference between the gross amounts of the claims and the amounts recoverable by distress, or payable in full under the Preferential Payments in Bankruptcy Acts. The amounts not so recoverable or payable in full will be carried to the list of Unsecured Creditors. In the Statement of Affairs the amount recoverable or payable in full will be shown in short on the liability side, and deducted from the gross assets on the asset side.

(f) Valuation of Assets.

All assets should be brought into the Statement of Affairs at a fair realisable value. Cash in hand must be ascertained, and that at the bank (if any). Stock must be valued with particular reference to the conditions under which a forced realisation might have to be made. Similar considerations apply to the valuation of other assets, such as freehold and leasehold properties, machinery and plant, fixtures, furniture, &c.

A full description of every kind of property must be made in the specified form, together with the statement of the amount it is expected to produce.

(g) Book Debts.

A schedule of debts due to the estate must be prepared, showing the name, address and occupation of the debtor, the amount of the debt, distinguishing between good, doubtful and bad ; the date of contraction, the amount each debt is estimated to produce, and particulars of any securities given for debts. In the Statement of Affairs the amount of the good debts is extended into the outer column ; the doubtful and bad debts are shown in short at their gross figure, and the amount they are estimated to produce extended.

(h) The Deficiency Account.

The excess of liabilities expected to rank against the estate over the net assets available to meet those liabilities is termed the "deficiency," or in the event of the assets exceeding the liabilities the "surplus." A Deficiency Account is prepared in order to disclose how the deficiency or surplus has arisen.

On reference to the form of this account shown in the subsequent example, it will be seen that the account starts with what is in effect either the Capital of the Debtor at a given date, or the Deficiency at that date; the date in question being either one year prior to the date of the Receiving Order, or such other date as the Official Receiver may fix.

On the debit side of the Deficiency Account will be found the various items which go to make up the total amount to be accounted for. These are as follows:—

(1) Capital at commencement of period under review (if any).

(2) Profits from business during period under review (if any), without charging Interest on Capital or Partners' Salaries.

(3) Any other income.

(4) Deficiency as per Statement of Affairs (if any).

The total of these will be accounted for on the credit side of the Deficiency Account as follows:—

(1) Excess of Liabilities over Assets at commencement of period under review (if any).

(2) Net loss (if any) from carrying on business during the period.

(3) Bad Debts.

(4) Drawings.

(5) Other losses and expenses.

(6) Surplus (if any).

The item "Other Losses and Expenses" will include the difference between the book value of the assets appearing in the Statement of Affairs and the amount they are estimated to produce; also the loss incurred in respect of all liabilities ranking against the Estate for dividend for which no consideration has been received, such as estimated loss on Bills discounted or Accommodation Bills. These various losses should be shown in detail.

(i) Bankruptcy of Firms.

Where a firm goes bankrupt, the Trustee of the Joint Estate becomes also the Trustee of the Separate Estate of each partner. Distinct accounts must be kept of the Joint and Separate Estates, the separate Creditors being first paid out of the assets of the Separate Estates. In the event of there being any surplus on any of the Separate Estates, this will be carried to the Joint Estate, but the joint Creditors cannot receive more than the full amount of their debts, together with 4 per cent. per annum interest from the date of the Receiving Order. Any surplus on the Joint Estate will be carried to the Separate Estates of the partners, according to their rights as between themselves.

ILLUSTRATION—

A. filed his petition on 31st December, 1919, and his Statement of Affairs was composed of the following figures :—

	£	s.	d.
Creditors unsecured	75,000	0	0
" partly secured by lien on Shares	40,000	0	0
" fully secured by lien on Stock	100	0	0
Liability on Bills Receivable (estimated to rank £3,500)	7,000	0	0
Mortgage on Mill	10,000	0	0
Creditors payable in full	3,000	0	0
Book Debts, good	20,000	0	0
" doubtful and bad (estimated to produce £2,000) ..	10,000	0	0
Consignments, good	5,000	0	0
Stock (estimated to realise £40,000)	60,000	0	0
Shares (cost and estimated to realise)	16,000	0	0
Cash at Bankers	200	0	0
Bills of Exchange	[illegible],300	0	0
Mill of the value of	11,000	0	0
Machinery (estimated to realise £12,000) ..	15,000	0	0
Fixtures (estimated to realise £1,500) ..	3,000	0	0
Cottages (estimated to realise £3,000) ..	3,500	0	0

On 1st January, 1914, he had a Capital of £50,000. Profits were made in the six years of £20,500, after allowing interest on Capital £10,000, and withdrawals amounted to £63,600

Prepare the Statement of Affairs and Deficiency Account

No. 46.

Statement of Affairs.

In the Court of

IN BANKRUPTCY. No. 19

RE A

STATEMENT OF AFFAIRS

At 31st December, 1919, date of Receiving Order.

Gross Liabilities. £ s. d.	Liabilities (as stated and estimated by Debtor).	£ s. d.	Expected to Rank. £ s. d.
75,000 0 0	Unsecured Creditors as per List (A.)		75,000 0 0
10,100 0 0	Creditors fully secured, as per List (B.)	10,100 0 0	
	Estimated value of securities ..	11,100 0 0	
	Surplus	1,000 0 0	
	Less amount thereof carried to Sheet (C.)		
	Balance thereof to contra ..	£1,000 0 0	
40,000 0 0	Creditors partly secured, as per List (C.)	40,000 0 0	
	Less estimated value of securities	16,000 0 0	24,000 0 0
	Liabilities on Bills discounted other than Debtor's own acceptances for value, as per List (D.), viz. :—		
	On Accommodation Bills as Drawer, Acceptor, or Indorser		
	On other Bills as Drawer or Indorser	7,000 0 0	
		£7,000 0 0	
7,000 0 0	Of which it is expected will rank against the estate for dividend ..		3,500 0 0
	Contingent or other Liabilities as per List (E.)		
	Of which it is expected will rank against the estate for dividend ..	£ s. d.	
	Creditors for rent, &c., recoverable by distress, as per List (F.)		
3,000 0 0	Creditors for rates, taxes, wages, &c., payable in full, as per List (G.)	3,000 0 0	
	Sheriff's charges payable under s. 11 of the Bankruptcy Act of 1890, estimated at ..		
	Deducted contra	£3,000 0 0	
£135,100 0 0			£102,500 0 0

Assets (as stated and estimated by Debtor).	£ s. d.	Estimated to produce. £ s. d.
Property as per List (H.), viz. :—		
(*a*) Cash at Bankers		200 0 0
(*b*) Cash in hand		
(*c*) Cash deposited with Solicitor for Costs of Petition ..		
(*d*) Stock-in-Trade (cost £60,000)		39,900 0 0
(*e*) Machinery		12,000 0 0
(*f*) Trade fixtures, fittings, utensils, &c.		1,500 0 0
(*g*) Farming stock		
(*h*) Growing crops and tenant right		
(*i*) Furniture		
(*j*) Life policies		
(*k*) Other property, viz. :—		
Cottages		3,000 0 0
Consignments		5,000 0 0
Total as per List (H.)		61,600 0 0
Book Debts as per List (I.), viz. :—		
Good		20,000 0 0
Doubtful .. .. } Bad .. .. }	£10,000 0 0	
	£10,000 0 0	
Estimated to produce		2,000 0 0
Bills of Exchange or other similar securities on hand, as per List (J.)	£1,300 0 0	
Estimated to produce		1,300 0 0
Surplus from securities in the hands of Creditors fully secured (per contra)		1,000 0 0
		85,900 0 0
Deduct Creditors for distrainable rent, and preferential rates, taxes, wages, sheriff's charges, &c. (per contra)		3,000 0 0
		82,900 0 0
Deficiency explained in Statement (K.)		19,600 0 0
		£102,500 0 0

No. 46.

Statement of Affairs.

List K.

K.

DEFICIENCY ACCOUNT.

	£	s.	d.	£	s.	d.
Excess of assets over liabilities on the (1) 1st day of January, 1914 (if any)				50,000	0	0
Net Profit (if any) arising from carrying on business from the (1) 1st day of January, 1914, to date of Receiving Order, after deducting usual trade expenses.. ..				30,500	0	0
Income or profit from other sources (if any) since the (1) day of 19						
Deficiency as per Statement of Affairs ..				19,600	0	0
Total amount to be accounted for .. ..(5)				£100,100	0	0

	£	s.	d.	£	s.	d.
Excess of liabilities over assets on the (1) day of 19 (if any) ..						
Net loss (if any) arising from carrying on business from the (1) day of 19 , to date of Receiving Order, after deducting from profits the usual trade expenses						
Bad debts (if any) as per Schedule "I" (2)				8,000	0	0
Expenses incurred since the (1) 1st day of January, 1914, other than usual trade expenses, viz., household expenses of self and (3)				63,600	0	0
(4) Other losses and expenses (if any) ..						
On Stock-in-Trade	20,000	0	0			
Machinery	3,000	0	0			
Fixtures	1,500	0	0			
Cottages	500	0	0			
Bills Receivable Discounted ..	3,500	0	0	28,500	0	0
Surplus as per Statement of Affairs (if any)						
Total amount accounted for .. ..(5)				£100,100	0	0

Signature

Dated 19

NOTES.—(1) This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.

(2) This Schedule must show when debts were contracted.

(3) Add "wife and children" (if any), stating number of latter.

(4) Here add particulars of other losses or expenses (if any), including depreciation in the value of stock and effects or other property as estimated for realisation, and liabilities (if any) for which no consideration received.

(5) These figures should agree.

§ 2.—The Accounts of a Trustee in Bankruptcy.

Detailed accounts must be kept by the Trustee of all his receipts and payments in a Cash Book. This book must be in the prescribed form, and contain columns for every class of receipt and payment. The following is the form provided :—

ILLUSTRATION—

TRUSTEE'S CASH BOOK.

Dr. RECEIPTS.								Cr. PAYMENTS.			
Date.	Particulars.	Total.	Drawn from Bank.	Debts Collected.	Property Realised.	Receipts from Securities held by Creditors.	Other Receipts.	Date.	Particulars.	Voucher Nos. (in red).	Total.

Dr. PAYMENTS.														Cr.
	COSTS OF REALISATION.													
				Commission on Realisation and Distribution.										
Paid into Bank.	Board of Trade and Court Fees.	Law Costs of Petition (including £5 stamp).	Law Costs after Receiving Order.	Board of Trade.	Trustee.	Charges of Auctioneer, Accountant, Short-hand Writer, &c., as taxed.	Notices in *Gazette* and Local Paper.	Incidental Expenses, including Possession.	Allowance to Debtor.	Preferential Creditors (Section 40) and Rent.	Payments to Redeem Securities.	Dividends Paid.	Other Payments.	

At the expiration of six months from the date of the Receiving Order, and every succeeding six months until his release, the Trustee must send to the Board of Trade a duplicate copy of the Cash Book for such period, together with the necessary vouchers and copies of the certificates of Audit by the Committee of Inspection. One copy of the Cash Book so required will be in the form shown above, the other copy is simply a summarised form without the detail columns.

If the Trustee carries on the business of the Debtor he must keep a Trading Account, recording simply the cash receipts and payments. This account must be kept in the prescribed form, and only the total of the receipts and payments need be inserted in the General Cash Book.

At the date of declaring the first and each subsequent dividend, and at the date of application by the Trustee for release, he must prepare a summarised statement of receipts and payments in the prescribed form, showing the position of the estate at the date in question. This statement must be sent to each Creditor who has proved, and to the Debtor.

§ 3.—Deeds of Arrangement.

Where an estate is not going into Bankruptcy, but a Trustee is appointed under a private Deed of Arrangement, it is usual for a Statement of Affairs to be presented to the Creditors, drawn up more or less on the lines of a Statement of Affairs in Bankruptcy, but disclosing considerably less detail. A list of Creditors is also usually furnished.

The Trustee under a Deed of Arrangement is not compelled to keep a columnar cash book similar to that required to be kept by a Trustee in Bankruptcy; but he must within 30 days from the 1st January in each year or other prescribed time transmit to the Board of Trade an account of his receipts and payments as Trustee, sufficient indication being given of each receipt and payment to explain its nature.

Where trading is carried on, a separate Trading Account must be kept, and the totals entered in the Cash Account.

By § 32 (2) of the Bankruptcy and Deeds of Arrangement Act, 1913, it is provided that every Trustee under a Deed of Arrangement must send every six months from the registration of the Deed to each Creditor who has assented to the Deed, a Statement in the prescribed form of the Trustee's Accounts and of the proceedings under the Deed to the date of the Statement. This is in addition to the Statement of Accounts sent annually to the Board of Trade within 30 days from the 1st January in each year, or (as provided by the Second Schedule to the Bankruptcy and Deeds of Arrangement Act, 1913), at such times as may be prescribed.

ILLUSTRATION—

The following are the forms which have been prescribed in connection with the Accounts of Trustees under Deeds of Arrangement.

TRUSTEE'S TRADING ACCOUNT.

Dr.	Receipts.		Payments.		*Cr.*
Date.			Date.		

LIST OF DIVIDENDS OR COMPOSITION.

Surname.	Christian Name.	Amount of Claim.	Amount of Dividend (or Composition).	
			Paid.	Unpaid.

TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS.

Receipts.				Payments.			
Date.	Of whom received.	Nature of Receipts.	Amount.	Date.	To whom paid.	Nature of Payments.	Amount.

§ 4.—The Preparation of a Statement of Affairs of a Company in Compulsory Liquidation.

Within 14 days from the date of the Winding-up Order a Statement of Affairs in the prescribed form must be submitted by the Directors or Secretary, or one of the chief officers of the Company.

The form of this statement is similar to that of the Statement of Affairs in Bankruptcy, but the principal point of difference is that it is divided up into two sections, the first showing the position as regards Creditors, and the second as regards Contributories. The statement must be accompanied by the following schedules :—

A. Unsecured Creditors.

B. Creditors fully secured (not including Debenture-holders).

C. Creditors partly secured.

D. Liabilities of Company on bills discounted other than their own acceptances for value.

E. Other Liabilities.

F. Preferential Creditors for rates, taxes, salaries and wages.

G. List of Debenture-holders.

H. Property.

I. Debts due to the Company.

J. Bills of Exchange, Promissory Notes, &c., on hand available as assets.

K. Unpaid calls.

L. List of Founders' shares.

M. List of Ordinary shares.

N. List of Preference shares.

O. (1) Deficiency account where winding-up order made within three years of formation of the Company.

(2) Deficiency account where winding-up order made more than three years after formation of the Company.

P. In substitution of such of the lists from A. to O. as will have to be returned blank.

The prescribed form of this Statement of Affairs and Deficiency Account is given in the following Illustration. In addition to the points already dealt with under the Statement of Affairs in Bankruptcy, the following should be noted :—

The Debenture-holders are not treated as secured Creditors, but are shown in short on the liability side, and deducted from the gross assets after the Preferential Creditors.

Unpaid calls are treated as an asset at the amount which it is expected they will realise, but the nominal amount of unpaid capital liable to be called up is not shown as an asset, but merely as a note at the foot of the Statement of Affairs. The deficiency on the first portion of the statement as regards Creditors is carried to the second portion relating to Contributories. To it is added the amount of capital paid up, and the two together will give the total deficiency required to be accounted for.

ILLUSTRATION—

From the following particulars prepare Statement of Affairs of the General Trading Company, Limited, as at 31st December, 1919, the date of the Winding-Up Order :—

	£	s.	d.
Land and Premises valued at ..	11,210	0	0
Secured Creditors holding First Mortgage on Land and Premises ..	8,090	0	0
Partly Secured Creditors holding Second Mortgage on Land and Premises	4,510	0	0
Unsecured Creditors ..	10,160	0	0
100 6 % Mortgage Debentures of £100 each, interest payable 30th June and 31st December, paid to 30th June, 1919 ..			
Liabilities on Bills discounted ..	1,400	0	0
Of which it is expected will rank ..	420	0	0
Managing Director's Salary, owing for five months..	200	0	0
Weekly Wages unpaid ..	100	0	0
Liability under Workmen's Compensation Act, 1906	40	0	0
Debtors—Good ..	9,265	0	0
,, Doubtful, estimated to produce 6s. 8d. in the £	2,940	0	0
,, Bad ..	1,750	0	0
Bills Receivable—Good ..	320	0	0
Bank Overdraft ..	26	0	0
Cash in Hand ..	3	0	0
Stock (cost £15,000) valued at ..	11,000	0	0
Issued Capital—			
100 Founders' Shares of £1 each, 10s. called up.			
15,000 Ordinary Shares of £1 each, issued as fully paid ..			
5,000 Preference Shares of £1 each, fully called up, on which there are Calls in arrear of £150, estimated to produce £100.			

No. C. 26.

Statement of Affairs.

* Insert full Name of Company.

In the Court of

IN THE MATTER OF THE COMPANIES (CONSOLIDATION) ACT, 1908, AND

IN THE MATTER OF *THE GENERAL TRADING COMPANY, LIMITED.

STATEMENT OF AFFAIRS on the 31st December, 1919, the date of the Winding-up Order.

(I.) AS REGARDS CREDITORS.

Gross Liabilities. £ s. d.	Liabilities.	£ s. d.	Expected to rank. £ s. d.
	Debts and Liabilities, viz. :—		
10,386 0 0	(a) (State number) Unsecured Creditors as per List "A"		10,386 0 0
8,090 0 0	(b) Creditors fully secured (not including debenture-holders) as per List "B"	8,090 0 0	
	Estimated value of securities	11,210 0 0	
	Estimated surplus ..	3,120 0 0	
	Carried to List "C" ..	3,120 0 0	
	Balance to contra (d) ..		
4,510 0 0	(c) Creditors partly secured as per list "C" ..	4,510 0 0	
	Less estimated value of securities	3,120 0 0	
	Estimated to rank for dividend ..		1,390 0 0
	(d) Liabilities on Bills discounted other than the Company's own acceptances for value, as per list "D"	1,400 0 0	
1,400 0 0	Of which it is expected will rank for dividend		420 0 0
	(e) Other liabilities as per list "E"		
	Of which it is expected will rank for dividend		
140 0 0	(f) Preferential Creditors for rates, taxes, wages, &c., as per list "F" deducted contra ..	140 0 0	
10,300 0 0	(g) Loans on debenture bonds as per list "G" deducted contra and interest .. .. (holders).	10,300 0 0	
			12,196 0 0
	Estimated surplus (if any) after meeting liabilities of Company, subject to cost of liquidation ..		
£34,826 0 0			£12,196 0 0

Assets.	£ s. d.	Estimated to Produce. £ s. d.
(a) Property as per list "H," viz. :—		
(a) Cash at Bankers		
(b) Cash in hand		3 0 0
(c) Stock-in-trade.. .. .. (Estimated cost, £15,000)		11,000 0 0
(d) Machinery		
(e) Trade fixtures, fittings, utensils, &c. ..		
(f) Investments in shares, &c.		
(g) Loans on Mortgage		
(h) Other property, viz. :—		
(b) Book debts (debtors), as per list "I," viz. :—		
Good		9,265 0 0
Doubtful..	£2,940 0 0	
Bad	1,750 0 0	
	£4,690 0 0	
Estimated to produce		980 0 0
(c) Bills of Exchange or other similar securities on hand, as per list "J"	320 0 0	
Estimated to produce		320 0 0
(d) Surplus from securities in the hands of creditors fully secured (per contra) (b)		
(e) Unpaid calls (debtors) as per list "K" :—	150 0 0	
Estimated to produce		100 0 0
Estimated total assets..		21,668 0 0
Deduct preferential creditors as per contra (f)		140 0 0
Estimated amount available to meet claims of debenture-holders		21,528 0 0
Deduct loans on debenture bonds secured on the assets of the Company as per contra (g)		10,300 0 0
Estimated amount available to meet unsecured creditors, subject to cost of liquidation		11,228 0 0
Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation		968 0 0
		£12,196 0 0

The nominal amount of unpaid capital liable to be called up is £50, which is [available to meet above deficiency] or [charged to debenture-holders], or as the case may be.

Dr. (II.) AS REGARDS CONTRIBUTORIES. *Cr.*

Dr.	£ s. d.	£ s. d.	*Cr.*	£ s. d.
Capital issued and allotted, viz. :—			Estimated Surplus as above (if any) subject to cost of Liquidation ..	
100 Founders' Shares of £1 per Share (Shareholders). (*a*) Issued as fully paid. Amount called up at 10s. per Share, as per List "L" ..	50 0 0			
15,000 Ordinary Shares of £1 per Share (Shareholders).	15,000 0 0			
(*a*) Issued as fully paid. Amount called up at £ per Share, as per List "M" ..				
5,000 Preference Shares of £1 per Share (Shareholders). (*a*) Issued as fully paid. Amount called up at £1 per Share, as per List "N" ..	5,000 0 0			
(*b*)				
Amount (if any) paid in advance of calls				
	£20,050 0 0			
Less unpaid calls estimated to be irrecoverable	50 0 0	20,000 0 0		
Add deficiency to meet liabilities as above ..		968 0 0	Total deficiency as explained in Statement "O"	20,968 0 0
		£20,968 0 0		£20,968 0 0

(*a*) Where capital is issued as partly paid up, the form should be altered accordingly.
(*b*) Add particulars of any other capital.

LIST "O" (1), DEFICIENCY ACCOUNT.

(1) Deficiency Account where Winding-up Order made WITHIN THREE YEARS OF formation of Company.

	£ s. d.		Amount Discharged £ s. d.	Due at date of Winding-up Order £ s. d.	£ s. d.
I. Gross Profit (if any) arising from carrying on business from date of formation of Company to date of Winding-up Order (as per Trading Account annexed) ..		I. Expenditure in carrying on business from date of formation of Company to date of Winding-up Order, viz. :—			
II. Receipts (if any) during same period from undermentioned sources :—		II. General Expenditure—			
Interest on Loans		Salaries			
Interest on Deposits		Wages not charged in Trading Account			
Transfer Fees		Rent			
Amount paid on shares issued and subsequently forfeited (as per list annexed)		Rates and Taxes ..			
		Law Costs			
III. Other Receipts (if any) during same period not included under any of the above headings		Commission			
		Interest on Loans ..			
		Interest on Debentures			
IV. Deficiency as per Statement of Affairs—Part II.		Miscellaneous Expenditure (as per details annexed) ..			
		III. Directors' Fees from date of formation of Company to date of Winding-up Order ..			
		IV. Dividends declared during same period ..			
		V. Losses and Depreciation written off in Company's books (1) :—			
		Bad Debts			
		Losses on Investments			
		Depreciation on Property			
		Preliminary Expenses			
		VI. Losses and Depreciation not written off in Company's books now written off by the Directors (1) :—			
		Bad Debts			
		Losses on Investments			
		Depreciation on Property			
		Preliminary Expenses			
		VII. Other Losses and Expenses			
Total amount to be accounted for .. (2) £		Total amount accounted for .. (2) £			

NOTES.—(1) Where particulars are numerous they should be inserted in a separate Schedule.
(2) These figures should agree.

Signature ....

Dated ....19....

§ 5.—The Accounts of a Liquidator in Compulsory Liquidation.

These Accounts are similar to those of a Trustee in Bankruptcy. The Liquidator must keep a Cash Book in the prescribed form, containing columns for every class of receipt and payment.

The following is the form provided :—

ILLUSTRATION—

LIQUIDATOR'S CASH BOOK.

[Left-hand side.]

Dr.	RECEIPTS.								PAYMENTS.			Cr.
Date.	Particulars.	Total.	Drawn from Bank.	Debts Collected.	Property Realised.	Receipts from Securities held by Creditors.	Calls.	Other Receipts.	Date.	Particulars.	Voucher Nos. (in red).	Total.

[Right-hand side.]

	PAYMENTS.													Cr.
	COST OF REALISATION.													
Paid into Bank.	Board of Trade and Court Fees.	Law Costs of Petition.	Law Costs after Winding-up Order.	Remuneration of Manager and Liquidator.	Official Receiver's Com. on Assets realised and amounts distributed in Dividend or paid to Contributories.	Charges of Auctioneer, Accountant, Shorthand Writer, etc., as taxed.	Notices in *Gazette* and Local Paper.	Incidental Expenses, including Possession.	Preferential Creditors and Rent.	Payments to Redeem Securities.	Dividends Paid.	Repayments to Contributories.	Other Payments.	

At the expiration of six months from the date of the Winding-up Order, and every succeeding six months until his release, the Liquidator must send to the Board of Trade a duplicate copy of the Cash Book for such period, together with the necessary vouchers, and copies of the Certificate of Audit of the Committee of Inspection. One copy of the Cash Book so required will be in the form shown above, the other copy being simply a summarised form without detailed columns.

If the Liquidator carries on business for the Company he must keep a Trading Account, recording simply the Cash Receipts and payments. This Account must be kept in the prescribed form, and the weekly totals of receipts and payments on Trading Account must be incorporated in the Cash Book.

The Liquidator must transmit to the Board of Trade with his accounts a Summary thereof in the prescribed form, copies of which are sent out to Creditors and Contributories.

At the date of application by the Liquidator for release, he must prepare a summarised Statement of Receipts and Payments in the prescribed form, showing the position of the Company at that date.

Under § 224 of the Companies (Consolidation) Act, 1908, if the winding-up has not been completed within one year, the Liquidator must make the returns to the Registrar required by the section in the prescribed form.

§ 6.—The Accounts of a Liquidator in Voluntary Liquidation.

In a Voluntary Liquidation the preparation of a Statement of Affairs and Deficiency Account is not compulsory, and the Liquidator is only required to keep an account of his receipts and payments.

If the Liquidation continues for more than one year, the Liquidator must summon a General Meeting of the Company at the end of the first year, and of each succeeding year from the commencement of the Winding-up, or as soon thereafter as may be convenient, and shall lay before the Meeting an Account of his receipts and payments.

When the Liquidation is finally completed a General Meeting must be summoned by the Liquidator, and an Account laid before it showing the way in which the property of the Company has been disposed of.

Returns to the Registrar under § 224 of the Companies (Consolidation) Act, 1908, must be made by the Liquidator if the Winding-up is not completed within one year.

ILLUSTRATION—

The X. Company, Limited, went into Voluntary Liquidation on the 31st December, 1919, with Unsecured Creditors £3,375, Preferential Creditors £442, and 6 per Cent. Debentures £4,000, secured by a floating charge on the undertaking, the interest on which was paid to 30th June, 1919.

The assets realised £7,255, being £4,200 from sale of Stock, £3,030 from Book Debts, and £25 cash in hand at the commencement of Liquidation. The Debentures were paid off on 30th June, 1920, and a first and final dividend distributed to Creditors. Cost of Liquidation amounted to £60 7s. 0d.

Prepare the Liquidator's Final Account for presentation to the Shareholders, his remuneration being at the rate of 3 per cent. on the amount realised, and 2 per cent. on the amount distributed to Unsecured Creditors.

THE X. COMPANY, LIMITED (IN LIQUIDATION).

Dr. LIQUIDATOR'S STATEMENT OF ACCOUNT. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Realisation of Assets :—			By Liquidation Expenses ..		60 7 0
Cash	25 0 0		,, Liquidator's Remuneration :		
Stock	4,200 0 0		3 % on £7,255 realised..	217 13 0	
Book Debts	3,030 0 0		2 % on £2,250 distributed	45 0 0	
		7,255 0 0			262 13 0
			,, Preferential Creditors ..		442 0 0
			,, Mortgage Debenture-holders ..	4,000 0 0	
			,, Interest to date of payment	240 0 0	
					4,240 0 0
			,, Unsecured Creditors—First and Final Dividend of 13s. 4d. in the £ on £3,375		2,250 0 0
		£7,255 0 0			£7,255 0 0

Note to Illustration.

The final portion of the Liquidator's Remuneration will be arrived at as follows :—

The Cash balance to be divided between the Liquidator and the Unsecured Creditors amounts to £2,295. As the Liquidator is to receive 2 per cent. of the amount distributed, and the amount to be distributed to the Creditors will be $\frac{2295}{102} \times 100 = £2.250$, the calculation for his remuneration will be $\frac{2295}{102} \times 2 = £45$.

§ 7.—Return to Shareholders.

In the event of some shares being fully paid up and others only partly paid up, it will become necessary for the Liquidator to adjust the rights of the Contributories between themselves, and this may involve the making of a call on those Shareholders whose shares are only partly paid up. It is essential that the amounts finally contributed by Shareholders in any one class should be equal as between themselves.

In the event of a surplus remaining after all costs and liabilities have been discharged, such surplus must be distributed between the Shareholders according to their rights under the Memorandum and Articles of Association.

Shares which have preference as to repayment of Capital should first be paid off, and if there remains a further surplus after the other Shareholders have received the nominal amount of their shares, the origin of such surplus must be carefully ascertained.

Subject to the Articles, it may be said that a Capital surplus will be distributed among all the Shareholders *pari passu* according to the nominal amount of their shares, irrespective of the class to which they belong; whereas a Revenue surplus is distributable in the same manner as profits.

ILLUSTRATION—

The Capital of The Motor Company, Limited (in Voluntary Liquidation), consists of:—

2,000 Preference Shares of £5 each, fully paid up.

8,000 Ordinary Shares of £5 each, fully paid up.

6,000 Ordinary Shares of £5 each, £4 per share paid up.

2,000 Deferred Shares of £5 each, £4 per share paid up

Under the Articles of Association, the Preference Shares have priority as to repayment of Capital over the Ordinary Shares, and the Ordinary Shares priority over the Deferred Shares.

The Costs of Liquidation, including the Liquidator's Remuneration, amounted to £700, and the Creditors to £8,900.

The assets realised £18,700. The Call made by the Liquidator on the Deferred Shareholders for the adjustment of the rights of Shareholders *inter se* was fully paid. A Call of 15s. per share was made on the partly paid Ordinary Shareholders, which was duly paid, with the exception of that on 200 Shares, which was irrecoverable.

Prepare the Liquidator's Final Statement of Account.

THE MOTOR COMPANY, LIMITED (IN LIQUIDATION).

Dr. LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Realisation of Assets ..		18,700 0 0	By Costs of Liquidation ..		700 0 0
,, Proceeds of Call of £1 per Share on 2,000 Deferred Shares of £5 each ..			,, Creditors paid in full ..		8,900 0 0
		2,000 0 0	,, Return to Shareholders—		
,, Call of 15s. per Share on 6,000 Ordinary Shares of £5 each	4,500 0 0		£5 per Share on 2,000 Preference Shares of £5 each, being return in full	10,000 0 0	
Less Call unpaid on 200 Shares	150 0 0	4,350 0 0	10s. per share on 8,000 Ordinary Shares of £5 each, leaving £4 10s per Share paid	4,000 0 0	
			5s. per Share on 5,800 Ordinary Shares of £5 each, leaving £4 10s. per Share paid	1,450 0 0	15,450 0 0
		£25,050 0 0			£25,050 0 0

Notes to Illustration.

The 200 Shares in respect of which the Call is irrecoverable will be forfeited, and consequently they will not participate in the final distribution.

The Call from the holders of the partly paid Ordinary Shares makes the partly paid shares £4 15s. 0d. paid, and the proceeds must be first applied in payment of 5s. per share to holders of fully paid Ordinary Shares, which makes all the Ordinary Shares £4 15s. 0d. paid. The balance of Cash remaining £3,450 is then divided up amongst all the Ordinary Shares entitled to participate and provides a further 5s. per share for each of the 13,800 shares. The fully paid Shares thus get 10s. per Share, and the partly paid shares 5s. per share.

§ 8.—The Accounts of a Receiver.

The Accounts of a Receiver take the form of a record of his receipts and payments, supported by vouchers, and made out in the prescribed manner. The accounts must be verified by affidavit, and will be passed periodically as directed by the Order appointing the Receiver. Separate accounts must be kept of Real Estate and Personal Estate, the forms of which are as follows:—

ILLUSTRATION –

FORM OF RECEIVER'S ACCOUNTS.

REAL ESTATE RECEIPTS.

No. of Item.	Date when received.	Tenant's Name.	Description of Premises.	Annual Rent.	Arrears due at	Amount due at	Amount received.	Arrears remaining due.	Observations.

PAYMENTS AND ALLOWANCES ON ACCOUNT OF REAL ESTATE.

No. of Item.	Date of Payment or Allowance.	Names of Persons to whom paid or allowed.	For what purpose paid or allowed.	Amount.

PERSONAL ESTATE.

Receipts on Account of Personal Estate. Payments and Allowances on Account of Personal Estate.

No. of Item.	Date when received.	Names of Persons from whom received.	On what account received.	Amount received.			No. of Item.	Date when paid or allowed.	Names of Persons to whom paid or allowed.	For what purpose paid or allowed.	Amount paid or allowed.		
				£	s.	d.					£	s.	d.

SUMMARY.

	£ s. d.	£ s. d.	£ s. d.
Amount of balance due from receiver on account of real estate on last account			
Amount of receipts on the above account of real estate			
Balance of last account paid into Court			
Amount of payments and allowances on the above account of real estate			
Amount of receiver's costs of passing this account as to real estate			
Balance due from the receiver on account of real estate .. .. £			
Amount of balance due from receiver on last account of personal estate			
Amount of receipts on the above account of personal estate..			
Balance of last account paid into Court			
Amount of payments and allowances on the above account of personal estate			
Amount of receiver's costs of passing this account as to personal estate			
Balance due from the receiver on account of personal estate .. .. £			

[Rules of the Supreme Court, Appendix L, form 14.]

SYNOPSIS OF CHAPTER XIV.

MISCELLANEOUS ACCOUNTS.

§ 1.—Hire-Purchase Agreements, and Agreements to Pay by Instalments.

(*a*) Hire-Purchase Agreements.

(*b*) Agreements to pay by Instalments.

2.—Mine Rents and Royalties.

(*a*) Where the Minimum Rent exceeds the Royalty Rent.

(*b*) Where the Royalty Rent exceeds the Minimum Rent.

3.—Fire Claims for Stock.

4.—Claims for Compensation.

5.—Treatment of Life Policy taken over in satisfaction of Debt due.

6.—Treatment of Loose Plant and Tools on Re-valuation.

7.—Voyage Accounts.

8.—Marine Insurance Accounts.

9.—Ledger Accounts for Investments.

10.—Tabular Ledgers.

(*a*) Purchase Day Book and Ledger combined.

(*b*) Rental Ledger.

(*c*) Electric Light, Gas, or Water Rental Ledger.

(*d*) Hotel Visitors' Ledger.

(*e*) Plant Ledger.

11.—Loose-leaf and Card Ledgers.

12.—Stock Exchange Transactions.

13.—Outstanding Costs in the Business of a Professional Man.

14.—Assurance Companies' Accounts.

15.—Accounts of Charitable Institutions.

(*a*) Specified Forms of Accounts.

(*b*) Columnar Cash Book.

(*c*) Subscription Register.

(*d*) Purchase Journal.

16.—Treatment of Share Profits

CHAPTER XIV.

MISCELLANEOUS ACCOUNTS.

§ 1.—Hire-Purchase Agreements, and Agreements to pay by Instalments.

There is a distinct difference between Hire-Purchase Agreements and Agreements to pay by Instalments. In the former case the legal property in the goods does not pass until the final instalment has been paid, and if default in the payment of any instalment is made, the person supplying the goods can only demand the return of such goods. In the latter case, however, the legal property in the goods passes immediately on delivery thereof, and in the event of default in payment of any of the instalments an action can be brought by the vendor for the payment of same.

(a) Hire-Purchase Agreements.

The entries in the books will be as follows :—

(1) *Buyer's Books.*—It is usual to make no entry in respect of the hire-purchase until the first payment becomes due, when a journal entry should be passed through the books crediting the Vendor with the full amount of the payment, and debiting an Interest or Hire Account with the proportion thereof, which, on the assumption that the agreement will be eventually completed, represents the cost of hiring the goods during the period covered by the payment. The difference between the total of each payment and the amount thereof debited to Interest Account will represent the proportion of the asset actually purchased in respect of that payment, presuming, as in the case of interest, that the agreement will be ultimately fulfilled.

The apportionment of each instalment as between interest and capital will be calculated as follows :—

The buyer should ascertain what it would cost to purchase the article for cash ; this figure will represent the present cash value, and will form the basis for the calculation of interest. He will also ascertain the rate of interest which is being charged by the seller in respect of the hire. As regards the first instalment, interest at the ascertained rate will be calculated on the ascertained present value of the article for the period of the rest. The figure thus arrived at will represent the revenue charge, and the balance of the instalment will be treated as capital. In the case of the second instalment, interest at the fixed rate will be calculated on the cash value of the article, less the proportion of the first instalment which was treated as capital. All further instalments will be treated in the same method. After the last instalment has been paid, the balance on the Asset Account will be found to equal the original cash value, if depreciation has not been provided for ; but as this figure will be in excess of the true value of the asset at that date, provision for depreciation should have been made during the term of the agreement, the calculation being based on the cash value, and not on the amounts paid.

ILLUSTRATION—

A Colliery Company hires Wagons on the Hire-Purchase system over a term of two years, starting on 1st January, 1918. The instalments of £400 each are payable half-yearly. The present cash value of the Wagons is £1,487, and the Wagon Company charge interest at the rate of 6 per cent. per annum, working on half-yearly rests.

Make the necessary Journal entries to record these transactions in the books of the Colliery Company, distinguishing between Capital and Revenue.

			£ s. d.	£ s. d.
1918. June 30	Sundries :—	*Dr.*		
	To Wagon Co.	..		400 0 0
	Wagon Account	..	355 7 10	
	Wagon Hire Account (6 % for 6 months on £1,487)..	..	44 12 2	

			£ s. d.	£ s. d.
1918. Dec. 31	Sundries :—	*Dr.*		
	To Wagon Co.	..		400 0 0
	Wagon Account	..	366 1 1	
	Wagon Hire Account (6 % for 6 months on £1,131 12s. 2d.).. ..	..	33 18 11	

			£ s. d.	£ s. d.
1919. June 30	Sundries :—	Dr.		
	To Wagon Co.	..		400 0 0
	Wagon Account	..	377 0 8	
	Wagon Hire Account (6 % for 6 months on £765 11s. 1d.)	..	22 19 4	

			£ s. d.	£ s. d.
1919. Dec. 31	Sundries :—	Dr.		
	To Wagon Co.	..		400 0 0
	Wagon Account	..	388 10 5	
	Wagon Hire Account (6 % for 6 months on £388 10s. 5d.)	..	11 9 7	

(2) *Seller's Books.*—The seller should keep a special Sales Day Book for all sales under Hire-Purchase Agreements, and he should enter therein full particulars of the terms. The amount extended in this book should be the present cash value, which should be debited to the buyer and credited to Sales Account. As each instalment falls due, an entry should be passed through a special Interest Journal, debiting the particular customer concerned with the interest upon the balance of the account. The total of this special Journal will be posted periodically to the credit of Interest Account. It will be seen that by this method the seller takes credit through the Sales Account for profit equal to that which he would have made had he sold the articles in question for cash, and as regards the interest he takes credit for a proportionate amount as each instalment becomes due.

As there is no legal conveyance of the goods to the buyer under the agreement, the seller may be forced to receive back the goods in lieu of the balance of the account at any time, and consequently it is necessary for him to make a reserve against possible loss in this direction.

ILLUSTRATION—

P. White enters into a Hire-Purchase Agreement with Messrs. A., B. and Co., extending over a period of two years.

P. White agrees to pay half-yearly instalments of £20 each. The present cash value of the goods is £74 7s. 0d., and the interest charged is at the rate of 6 per cent. per annum.

Show P. White's Account in the books of Messrs. A., B. and Co.

P. WHITE.

Dr. Agreement No. 72 (four half-yearly payments of £20). *Cr.*

		£ s. d.			£ s. d.
1918.			1918.		
Jan. 1	To Sales Account..	74 7 0	June 30	By Cash	20 0 0
June 30	" Interest	2 4 7		" Balance	56 11 7
		£76 11 7			£76 11 7
		£ s. d.			£ s. d.
July 1	To Balance	56 11 7	Dec. 31	By Cash	20 0 0
Dec. 31	" Interest	1 13 10		" Balance	38 5 5
		£58 5 5			£58 5 5
1919.		£ s. d.	1919.		£ s. d.
Jan. 1	To Balance	38 5 5	June 30	By Cash	20 0 0
June 30	" Interest	1 2 11		" Balance	19 8 4
		£39 8 4			£39 8 4
		£ s. d.			£ s. d.
July 1	To Balance	19 8 4	Dec. 31	By Cash	20 0 0
Dec. 31	" Interest	11 8			
		£20 0 0			£20 0 0

(b) Agreements to pay by Instalments.

As the legal property in the goods passes by mere delivery, the seller becomes the creditor of the buyer.

(1) *Buyer's Books.*—As soon as the agreement to purchase goods on the instalment principle has been entered into, the buyer should pass an entry through his journal, crediting the Vendor with the total of all the instalments which will have to be paid, debiting the Asset Account with the present cash value thereof, and an Interest Suspense Account with the difference between the present value of the asset and the total amount of the instalments.

As each instalment becomes due, an amount should be written off the Interest Suspense Account representing the proportion of interest on the instalment, and debited to Profit and Loss. When the instalment is paid, Cash will be credited, and the Vendor's Account debited.

Depreciation should be taken into account year by year, so that when the last instalment has been paid the balance of the Asset Account will stand in the books at the actual value as at that date.

ILLUSTRATION—

X. purchases on the 1st January, 1918, some goods, arranging to pay for the same over a period of two years by half-yearly instalments of £120. The Company supplying the goods charge interest at the rate of 6 per cent. per annum, and the present cash value of the goods is £446 2s. 0d.

Show Interest Suspense Account in the books of X.

Dr. INTEREST SUSPENSE ACCOUNT. *Cr.*

Date		£ s. d.	Date		£ s. d.
1918. Jan. 1	To Sundries	33 18 0	1918. June 30	By P. & L. Account—6% on £446 2 0	13 7 8
				,, Balance	20 10 4
		£33 18 0			£33 18 0
July 1	To Balance	20 10 4	Dec. 31	By P. & L. Account—6% on £339 9 8	10 3 8
				,, Balance	10 6 8
		£20 10 4			£20 10 4
1919. Jan. 1	To Balance	10 6 8	1919. June 30	By P. & L. Account—6% on £229 13 4	6 17 10
				,, Balance	3 8 10
		£10 6 8			£10 6 8
July 1	To Balance	3 8 10	Dec. 31	By P. & L. Account—6% on £116 11 2	3 8 10
		£3 8 10			£3 8 10

	£ s. d.
The Total amount of the Instalments comes to	480 0 0
From which must be deducted the present cash value of the goods	446 2 0
Leaving the total charge for Interest	£33 18 0

(2) *Seller's Books.*—As soon as the agreement has been entered into, the seller will make a journal entry in his books, debiting the buyer with the full amount of all the instalments which will have to be paid, and crediting Sales Account with the present cash value, and Interest Suspense Account with the total amount of interest chargeable, being the difference between the total amount payable by the buyer and the present cash value. As each instalment becomes due, a proportionate amount of the

interest will be written off to the credit of Profit and Loss Account, and as the various instalments are paid, Cash will be debited and the Buyer's Account credited.

By this method the seller will take credit through the Sales Account for profit equal to that which he would have made had he sold the article in question for cash, and as regards the interest he takes credit for a proportionate amount as each instalment becomes due. The balance of the Buyer's Account at any time will show the balance still payable under the agreement.

It will be necessary to make ample reserves in lieu of possible bad debts on these transactions, and unless the seller is in possession of sufficient working capital it may be inadvisable to take credit for the whole profit on the sale in the Profit and Loss Account of the year in which the sale was effected. Any proportion of the profit thus carried forward should be credited to a Special Suspense Account.

§ 2.—Mine Rents and Royalties.

The rent of a mine is rarely fixed in amount, but is generally in the nature of a Royalty based on the output. In such cases there is usually a clause in the lease fixing a Minimum or Dead Rent, which must be paid whatever the output may be. This Minimum Rent merges into a Royalty Rent, so that the actual rent paid is either the Minimum or Royalty Rent, whichever is the greater. Another clause frequently found in mine leases is that dealing with Short Workings, which provides that where the Royalty Rent based on the output is less than the Minimum Rent, such difference may be recouped subsequently when the Royalty Rent exceeds the Minimum Rent. A fixed limit of time is given within which to recoup these Short Workings, or, as they are sometimes called, Redeemable Dead Rents. It should be remembered that the Landlord will not in any period receive in cash an amount less than the Minimum Rent for that period.

The entries in the Mine Books will be as follows :—

(a) Where the Minimum Rent for any particular period exceeds the Royalty Rent.

(1) Debit Minimum Rent Account and credit the Landlord's Account.

(2) Ascertain what the Royalty Rent amounts to, and debit the Royalties Account and credit Minimum Rent Account with the same. The Royalties Account will be written off to Profit and Loss.

(3) The balance of the Minimum Rent Account will represent the amount by which the Dead Rent exceeds the Royalty Rent, and will be transferred to Short Workings Account, and recouped subsequently where possible.

(b) Where the Royalty Rent exceeds the Minimum Rent.

In this case the Minimum Rent Account can be dispensed with altogether, and the entries will be as follows :—

(1) Debit the Royalties Account and credit Landlord's Account.

(2) Credit Royalties Account and debit Profit and Loss Account.

(3) The Landlord's Account will be closed by the payment of cash, and the adjustment of short Workings, recoverable (if any).

Where it is impossible to recoup Short Workings within the specified period, the balance of this account can no longer be treated as an asset on the Balance Sheet, but must be written off to Profit and Loss Account. In practice the balance of the Short Workings Account, although treated as an asset in the Balance Sheet, is generally reserved for to the full amount. The terms Tentail or Acreage Rents are sometimes used in place of the term Royalty Rent.

ILLUSTRATION—

A Colliery Company are lessees of a mine at a Dead Rent of £2,000 per annum, merging into a Royalty of eightpence per ton. Dead Rent paid in excess of actual Royalties is recoverable thereout during the next five years succeeding the year in respect of which such excess was paid. The first year in respect of which the Dead Rent was payable expired on 31st December, 1913. The excess paid in respect of the first year was £2,000; of the second

year £1,450 ; and of the third year £350. In the fourth year the actual Royalties amounted to £2,750 ; in the fifth year to £3,250 ; in the sixth year to £3,600 ; and in the seventh year (in consequence of a strike) to £1,850 only. Show Ledger Accounts recording these transactions in the books of the Colliery, carrying forward each year as an asset the excess of Dead Rents paid recoverable in subsequent years.

Dr. DEAD RENT ACCOUNT. *Cr.*

1913.		£ s. d.	1913.		£ s. d.
Dec. 31	To Landlord	2,000 0 0	Dec. 31	By Short Workings ..	2,000 0 0
1914.		£ s. d.	1914.		£ s. d.
Dec. 31	To Landlord	2,000 0 0	Dec. 31	By Royalties	550 0 0
				„ Short Workings ..	1,450 0 0
		£2,000 0 0			£2,000 0 0
1915.		£ s. d.	1915.		£ s. d.
Dec. 31	To Landlord	2,000 0 0	Dec. 31	By Royalties	1,650 0 0
				„ Short Workings ..	350 0 0
		£2,000 0 0			£2,000 0 0
1919.		£ s. d.	1919.		£ s. d.
Dec. 31	To Landlord	2,000 0 0	Dec. 31	By Royalties	1,850 0 0
				„ Short Workings ..	150 0 0
		£2,000 0 0			£2,000 0 0

Dr. ROYALTIES ACCOUNT. *Cr.*

1914.		£ s. d.	1914.		£ s. d.
Dec. 31	To Dead Rent	550 0 0	Dec. 31	By P. & L.	550 0 0
1915.		£ s. d.	1915.		£ s. d.
Dec. 31	To Dead Rent	1,650 0 0	Dec. 31	By P. & L.	1,650 0 0
1916.		£ s. d.	1916.		£ s. d.
Dec. 31	To Landlord	2,750 0 0	Dec. 31	By P. & L.	2,750 0 0
1917.		£ s. d.	1917.		£ s. d.
Dec. 31	To Landlord	3,250 0 0	Dec. 31	By P. & L.	3,250 0 0
1918.		£ s. d.	1918.		£ s. d.
Dec. 31	To Landlord	3,600 0 0	Dec. 31	By P. & L.	3,600 0 0
1919.		£ s. d.	1919.		£ s. d.
Dec. 31	To Dead Rent	1,850 0 0	Dec. 31	By P. & L.	1,850 0 0

Dr. SHORT WORKINGS ACCOUNT. *Cr.*

1913.		£ s. d.	1916.		£ s. d.
Dec. 31	To Dead Rent	2,000 0 0	Dec. 31	By Landlord	750 0 0
1914.			1917.		
Dec. 31	„ „ „	1,450 0 0	Dec. 31	„ „	1,250 0 0
1915.			1918.		
Dec. 31	„ „ „	350 0 0	Dec. 31	„ „	1,600 0 0
1919.			1919.		
Dec. 31	„ „ „	150 0 0	Dec. 31	„ Balance	350 0 0
		£3,950 0 0			£3,950 0 0
1920.		£ s. d.			
Jan. 1	To Balance	350 0 0			

Dr. LANDLORD'S ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1913. Dec. 31	To Cash	2,000 0 0	1913. Dec. 31	By Dead Rent Account ..	2,000 0 0
1914. Dec. 31	To Cash	2,000 0 0	1914. Dec. 31	By Dead Rent Account ..	2,000 0 0
1915. Dec. 31	To Cash	2,000 0 0	1915. Dec. 31	By Dead Rent Account ..	2,000 0 0
1916. Dec. 31	To Cash	2,000 0 0	1916. Dec. 31	By Royalties Account ..	2,750 0 0
	,, Short Workings ..	750 0 0			
		£2,750 0 0			£2,750 0 0
1917. Dec. 31	To Cash	2,000 0 0	1917. Dec. 31	By Royalties Account ..	3,250 0 0
	,, Short Workings ..	1,250 0 0			
		£3,250 0 0			£3,250 0 0
1918. Dec. 31	To Cash	2,000 0 0	1918. Dec. 31	By Royalties Account ..	3,600 0 0
	,, Short Workings .	1,600 0 0			
		£3,600 0 0			£3,600 0 0
1919. Dec. 31	To Cash	2,000 0 0	1919. Dec. 31	By Dead Rent	2,000 0 0

§ 3.—Fire Claims for Stock.

Where a portion of the stock of a trader is destroyed by fire and the exact value thereof is unknown, the usual method of ascertaining the amount of the claim is to prepare an estimated Trading Account for the period since the last accounts were drawn out. The average rate of gross profit on turnover for past years will be ascertained, and the percentage so arrived at calculated on the sales for the particular period under review will be considered to represent the estimated gross profit for the period. The balance of the account will then show the estimated stock which was damaged and destroyed.

Any partially destroyed stock will be valued, and the amount deducted from the amount of the estimated stock. The resulting figure will represent the claim to be made against the Insurance Company.

ILLUSTRATION—

John Smith carries on business as a Timber Merchant. On 31st March, 1920, a fire occurred at his yard, and the greater portion of his stock was destroyed, the value of the portion salved being £600. His books, however, were saved, and from these it appeared that on 1st January, 1920, his stock amounted to £3,000. The purchases to 31st March were £5,000, whilst the sales were £7,200. From an examination of his accounts for the previous three years it appears that the gross profit on the sales was 25 per cent. He is insured against fire.

Prepare a Statement showing what amount he should claim from the Insurance Company.

JOHN SMITH.

Dr. Estimated Trading Account for three months ending 31st March, 1920. *Cr.*

	£ s. d.		£ s. d.
To Stock at 1st January, 1920	3,000 0 0	By Sales..	7,200 0 0
„ Purchases	5,000 0 0	„ Estimated Stock	2,600 0 0
„ Estimated Gross Profit, being 25 % on £7,200	1,800 0 0		
	£9,800 0 0		£9,800 0 0

The above Account shows the Stock to be of the Estimated Value of £2,600 at the date of the fire. The value of the stock salved being agreed at £600, claim will be made against the Insurance Company for £2,000.

§ 4.—Claims for Compensation.

Professional Accountants are constantly being required to prepare Accounts substantiating claims for compensation, either for personal injuries sustained, or for damages in respect of destruction or disturbance of business.

In the case of a claim for damages in respect of personal injuries sustained, the chief points to be considered are :—

(1) The plaintiff's actual income from his business.

(2) The extent of the injuries sustained. If these are such as to totally disable the plaintiff from attending to his business, he will be entitled to a much larger sum by way of damages than if the disablement were only partial.

(3) Whether the plaintiff can easily realise the full amount of the capital in his business, or whether a loss will be made.

The claim is often made by way of an Annuity.

Where the claim for compensation is on account of destruction or disturbance of business, the chief points to take into account are :—

(1) The Loss on Trading which it is anticipated will be sustained.

(2) If it is a question of compulsory sale of a Lease, the period and terms of the Lease.

(3) The probable loss on Fixtures and Fittings.

(4) The loss in respect of compulsory sale of stock (if any).

(5) Loss of Beneficial Interest through compulsory removal.

In order to arrive at the probable loss, proper accounts will have to be prepared for the last three or four years, and the claim will be based

on between three and four years' purchase of the average profits so arrived at. Very often an additional amount is allowed to the claimant to compensate him for the compulsory sale of the premises.

ILLUSTRATION—

A. B., an Ironmonger, carried on business upwards of 15 years in premises situate in High Street, well fitted up and well stocked, held under a lease, of which nine years are unexpired, and at an annual rent of £250. The property being required for street improvements, A. B., having received due notice from the proper Authority, claims compensation for disturbance. If A. B.'s Solicitor were to instruct you to prepare a Statement of Claim, what Accounts would you prepare?

State the grounds upon which the claims would be based, and, by means of assumed figures, make out a Statement showing the items of which it would be composed.

Trading and Profit and Loss Accounts would be prepared for three or five years, according to the circumstances of the case. The Compensation claimed would be based in respect of the following losses:—

(1) Loss of Beneficial Interest through compulsory removal, which may or may not amount to the entire Goodwill, according to the circumstances of the case.

(2) The present value of the lease, plus 10 per cent. for compulsory removal.

(3) Loss on fixtures according to the facts of the case.

(4) Loss in respect of compulsory sale of stock (if any).

The Statement of Claim might take the following form:—

STATEMENT OF CLAIM

FOR COMPENSATION IN RESPECT OF COMPULSORY REMOVAL.

	£	s.	d.
To Loss in respect of Beneficial Interest, 3 years' average net profits as per accounts enclosed ..	6,000	0	0
,, Present value of Lease, plus 10 % for compulsory removal	500	0	0
,, Loss on Fixtures	750	0	0
,, Loss in respect of compulsory sale of stock	1,000	0	0
Total Claim ..	£8,250	0	0

§ 5.—Treatment of Life Policy taken over in satisfaction of debt due.

The method of treating a Life Insurance Policy taken over in full satisfaction of a debt due will depend to a large extent on the nature of the Policy and the surrender value thereof. It may be prudent to realise the Policy and write off the difference between the amount thus obtained and the amount of the loan to Profit and Loss Account as a bad debt, or it may be advisable to keep the Policy alive by continuing to pay the annual premiums as and when they become due. In this latter case the best method is to reserve out of the profits an amount equal to the difference between the surrender value of the Policy and the

amount of the debt due, having transferred the balance of the Debtor's Account to a Policy Account.

Each year as the Premiums are paid the Policy Account will be debited therewith, and at the same time an adjusting entry will be made so as to leave the difference between the Policy Account and the Reserve Account at the actual surrender value of the Policy.

ILLUSTRATION—

F. Smith owes £1,000 to John Black for goods supplied, but as he is unable to pay the debt he agrees to assign his Life Insurance Policy to J. Black as at 1st January, 1916. The Policy is for £1,800 without profits, payable at the age of 55 or death, and carries an annual premium of £90.

Smith's present age is 47, and the Surrender value of the Policy is £607. John Black elects to keep the Policy alive by paying the annual premiums as and when they become due, and in consequence pays the first premium of £90 on the 31st December, 1916, and subsequent premiums on the same date each year.

The Surrender value of the Policy as at 31st December, 1916, was £658; at the 31st December, 1917, £720; the 31st December, 1918, £800; the 31st December, 1919, £898.

F. Smith dies on the 4th January, 1920, and the Policy money is duly paid by the Insurance Company.

Show the Accounts recording these transactions in the books of John Black.

JOHN BLACK'S LEDGER.

Dr. F. SMITH'S ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1916. Jan. 1	To Balance due	1,000 0 0	1916. Jan. 1	By Policy Account ..	1,000 0 0
		£1,000 0 0			£1,000 0 0

Dr. POLICY ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1916. Jan. 1	To Balance	1,000 0 0	1916. Dec. 31	By Balance	1,090 0 0
Dec. 31	„ Cash	90 0 0			
		£1,090 0 0			£1,090 0 0
1917. Jan. 1	To Balance	1,090 0 0	1917. Dec. 31	By Balance	1,180 0 0
Dec. 31	„ Cash	90 0 0			
		£1,180 0 0			£1,180 0 0
1918. Jan. 1	To Balance	1,180 0 0	1918. Dec. 31	By Balance	1,270 0 0
Dec. 31	„ Cash	90 0 0			
		£1,270 0 0			£1,270 0 0
1919. Jan. 1	To Balance	1,270 0 0	1919. Dec. 31	By Balance	1,360 0 0
Dec. 31	„ Cash	90 0 0			
		£1,360 0 0			£1,360 0 0
1920. Jan. 1	To Balance	1,360 0 0	1920. Jan. 4	By Cash	1,800 0 0
Dec. 31	„ P. & L. Account ..	440 0 0			
		£1,800 0 0			£1,800 0 0

Dr. RESERVE ON POLICY ACCOUNT. *Cr.*

1916.		£ s. d.	1916.		£ s. d.
Dec. 31	To Balance	432 0 0	Jan. 1	By P. & L. Account ..	393 0 0
			Dec. 31	,, P. & L. Account ..	39 0 0
		£432 0 0			£432 0 0
1917.		£ s. d.	1917.		£ s. d.
Dec. 31	To Balance	460 0 0	Jan. 1	By Balance	432 0 0
			Dec 31	,, P. & L. Account ..	28 0 0
		£460 0 0			£460 0 0
1918.		£ s d	1918.		£ s. d.
Dec. 31	To Balance	470 0 0	Jan. 1	By Balance	460 0 0
			Dec. 31	,, P. & L. Account ..	10 0 0
		£470 0 0			£470 0 0
1919.		£ s. d.	1919.		£ s. d.
Dec. 31	To P. & L. Account ..	8 0 0	Dec. 31	By Balance	470 0 0
	,, Balance	462 0 0			
		£470 0 0			£470 0 0
1920.		£ s. d.	1920.		£ s. d.
Dec. 31	To P. & L. Account ..	462 0 0	Jan. 1	By Balance	462 0 0
		£462 0 0			£462 0 0

Note to Illustration.

It will be seen that each year an amount is debited or credited, as the case may be, to the Reserve Account, so as to leave the difference between the balance of the Policy Account and this Reserve Account at the Surrender value of the Policy.

During the year 1919 the Surrender value of the Policy increased by a greater amount than the annual premium, and in consequence an amount was written off the Reserve Account to the credit of Profit and Loss.

There are several other methods of treating Life Policies taken over in satisfaction of debts due, but the above is that recommended.

§ 6.—Treatment of Loose Plant and Tools on Re-valuation.

In an Engineering business, or concerns of a similar nature, it is customary to re-value the loose plant and tools, &c., each year, and in this way to provide for depreciation in respect thereof.

It often happens, however, that the value of this loose plant is greater at the end of the year than it is at the commencement. This is not due to appreciation in any way, but to the fact that the stock is greater at the end than at the beginning.

Such increase will arise where loose plant, &c., has been made in the works during the period, and the expenditure occasioned thereby has been

included in the total figure of materials and wages. Thus the Asset Account has not been increased as it would have been had the expenditure been directly allocated.

The best method of treating these items at the commencement and end of the period is to pass the same through the Trading Account in the same way as ordinary Stock-in-Trade, as this account has been charged with the cost by way of material and wages.

Similar treatment may apply to such items as models, patterns, &c.

ILLUSTRATION—

From the following Trial Balance of the Northern Foundry and Engineering Company, Limited, at 30th June, 1919, make up Trading Account, Profit and Loss Account, and Balance Sheet. The nominal Capital of the Company is £50,000, divided into £30,000 Ordinary Shares of £1 each, and 20,000 Six per Cent. Cumulative Preference Shares of £1 each.

TRIAL BALANCE 30TH JUNE, 1919.

	£ s. d.	£ s. d.
25,000 Ordinary Shares of £1 each, 16s. paid		20,000 0 0
15,000 6 % Cumulative Preference Shares of £1 each, fully paid		15,000 0 0
4 % First Mortgage Debentures		20,000 0 0
Freehold Land and Buildings	18,000 0 0	
Fixed Plant and Machinery	12,000 0 0	
Loose Plant and Tools, Models and Patterns, 30th June, 1918	8,000 0 0	
Stock-in-Trade, 30th June, 1918	21,000 0 0	
Sales		63,400 0 0
Purchases	31,500 0 0	
Wages	17,500 0 0	
Carriage and Cartage	2,500 0 0	
Returns and Allowances	1,500 0 0	
Discounts	600 0 0	
Salaries and Travelling Expenses	3,900 0 0	
Rates, Gas, Electric Light and Water	1,400 0 0	
Printing, Stationery and Advertising	550 0 0	
Directors' Remuneration	1,500 0 0	
Trade Expenses	1,560 0 0	
Bad Debts	650 0 0	
Bank Interest and Charges	550 0 0	
Interest on Debentures to 31st December, 1918	400 0 0	
Half-year's Dividend on Preference Shares to 31st December, 1918	450 0 0	
Sundry Debtors and Creditors	10,450 0 0	6,000 0 0
Bills Receivable	2,550 0 0	
Profit and Loss Account—Balance from 1918		800 0 0
County Bank—Overdraft		11,600 0 0
Cash in hand	240 0 0	
	£136,800 0 0	£136,800 0 0

At 30th June, 1919, the Stock was valued at £28,000, and the Loose Plant and Tools, Models, and Patterns at £9,400.

Provide £450 for Bad Debts, and 1 per cent. on the Debtors for Discounts.

Write off Depreciation on Land and Buildings 1 per cent., and on Fixed Plant and Machinery $7\frac{1}{2}$ per cent.

Dr. **TRADING AND PROFIT AND LOSS ACCOUNT,** *Cr.*

YEAR ENDING 30TH JUNE, 1919.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Stock	21,000 0 0		By Sales	63,400 0 0	
„ Loose Plant and Tools, Models and Patterns ..	8,000 0 0	29,000 0 0	*Less* Returns and Allowances..	1,500 0 0	61,900 0 0
„ Purchases		31,500 0 0	„ Loose Plant and Tools, Models and Patterns	9,400 0 0	
„ Wages		17,500 0 0	„ Stock	28,000 0 0	37,400 0 0
„ Gross Profit carried down		21,300 0 0			
		£99,300 0 0			£99,300 0 0
To Salaries and Travelling Expenses		3,900 0 0	By Gross Profit from Trading ..		21,300 0 0
„ Carriage and Cartage ..		2,500 0 0			
„ Rates, Gas, Electric Light and Water		1,400 0 0			
„ Printing, Stationery and Advertising		550 0 0			
„ Trade Expenses		1,560 0 0			
„ Directors' Remuneration..		1,500 0 0			
„ Bank Interest and Charges		550 0 0			
„ Bad Debts..		1,100 0 0			
„ Discount		700 0 0			
„ Interest on Debentures ..		800 0 0			
Depreciation :—					
Land and Buildings at 1 %	180 0 0				
Fixed Plant and Machinery 7½ % ..	900 0 0	1,080 0 0			
„ Balance, being net Profit for the year carried to Balance Sheet		5,660 0 0			
		£21,300 0 0			£21,300 0 0

NOTE.—The Reserve for Discount of 1 % is calculated on the amount of the Debtors after allowing for the £450 Bad Debts.

THE NORTHERN FOUNDRY AND ENGINEERING COMPANY, LIMITED.

BALANCE SHEET 30TH JUNE, 1919.

LIABILITIES.	£ s. d.	£ s. d.	ASSETS.	£ s. d.	£ s. d.
Nominal Capital £50,000 :—			Freehold Land and Buildings	18,000 0 0	
Ordinary Shares, 30,000 of £1 each	30,000 0 0		*Less* Depreciation ..	180 0 0	17,820 0 0
6 % Cumulative Preference Shares, 20,000 of £1 each	20,000 0 0	£50,000 0 0	Fixed Plant and Machinery	12,000 0 0	
			Less Depreciation ..	900 0 0	11,100 0 0
Issued Capital—			Loose Plant and Tools, Models and Patterns ..		9,400 0 0
25,000 Ordinary Shares £1 each, 16s. paid up ..	20,000 0 0		Stock		28,000 0 0
15,000 Preference Shares £1 each, fully paid	15,000 0 0	35,000 0 0	Sundry Debtors— On Open Accounts ..	10,450 0 0	
4 % First Mortgage Debentures	20,000 0 0		*Less* Bad Debts Reserve ..£450 0 0 Discount .. 100 0 0	550 0 0	
Interest accrued thereon ..	400 0 0	20,400 0 0		9,900 0 0	
Bank Overdraft		11,600 0 0			
Sundry Creditors		6,000 0 0	Bills Receivable	2,550 0 0	12,450 0 0
Profit and Loss Account— Balance at 1st July, 1918	800 0 0		Cash in hand		240 0 0
Add Profit for year ..	5,660 0 0				
	6,460 0 0				
Less Preference Dividend paid	450 0 0	6,010 0 0			
		£79,010 0 0			£79,010 0 0

§ 7.—Voyage Accounts.

The Owner or Charterer of a ship, in addition to finding the profit or loss from carrying on his business for a period, should be in a position to ascertain the exact result of each voyage made. In order to do this it is usual to open a separate account for each voyage, the account referring to each voyage being numbered consecutively.

The Voyage Account should be charged up with all expenses actually incurred in respect of the particular voyage, and with a proper proportion of all other charges which are attributable to the voyages generally, such as Premiums on Time Policies, Manager's Remuneration, &c., and should, in the same way, be credited with the Freight and other income earned. The final balance of the account will represent the profit or loss on the voyage. Any balance brought forward from the previous voyage should be entered in an Appropriation Account, and not credited to the Voyage Account itself.

The Voyage Account will be in the form of an ordinary Profit and Loss Account.

ILLUSTRATION—

The "Glenisla" Steam Ship Company, Limited, own one "tramp steamer," the S.S. "Glenisla," 2,211 tons gross register, which was chartered on February 27th, 1920, as follows :—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE.—The charter stipulates for an address commission to the charterers of 2 per cent. on the freight, payable on signing Bill of Lading, together with a brokerage of 5 per cent. to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE.—Address commission of 2½ per cent. on freight payable to charterers, and a brokerage of one-third of 5 per cent. payable to charterers' agents on signing charter.

The vessel was insured at Lloyd's on April 29th, 1919, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remuneration was fixed by the Articles of Association at 2s. 6d. per gross register ton per annum.

The voyage commenced on March 9th, 1920, and the following are the particulars from which the accounts are to be made up :—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow—			
Stores Accounts	162	8	1
Port Charges, Trimming, &c., Cardiff	121	2	3
Captain's Accounts for Harbour Wages, &c., Cardiff	64	7	6
Bunker Coals, as per Engineer's Receipt—279 tons @ 9/–; 154 tons @ 8/11¼			
Discharging at Genoa	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. say 60.00)	lire 6,641.00		
Captain's Expenses, Genoa	7	19	0
Stevedore at Agua Amarga, loading 3,360 tons Ore	152	10	0
Despatch Money	213	13	4
Interest on Advance	10	19	9
Captain's Expenses	5	15	9
Agents' Accounts for Port Charges, Agency, &c., exclusive of address Commission and Brokerage (exch. 26.75)	pesetas 2,964.88		
Bunker Coal at Portland, 20 tons @ 18/6, and Port Charges £3 2s.			
Port Charges, Discharging and Despatch Money at Barrow	423	7	6
Captain's Portage Bill..	168	6	8
Overlookers' Expenses..	4	5	0

The voyage terminated on April 28th, 1920.

Prepare the Voyage Account, apportioning where necessary in months.

Dr. VOYAGE ACCOUNT, 27TH FEBRUARY, 1920, TO 28TH APRIL, 1920. *Cr.*

	£	s.	d.	£	s.	d.		£	s.	d.
To Stores Account				162	8	1	By Freight—			
,, Port Charges &c.				121	2	3	Outward—3,190 tons of Coal from			
,, Captain's Account, Cardiff ..				64	7	6	Cardiff to Genoa @ 8/9 per ton	1,395	12	6
,, Bunker Coals—279 tons @ 9/– ..	125	11	0				Homeward—3,660 tons of Ore to			
154 tons @ 8/11¼	68	16	5				Barrow @ 8/3..	1,509	15	0
				194	7	5	,, Brokerage refunded—			
,, Discharging at Genoa				93	15	3	One-third of £69 15s. 7d. ..	23	5	2
,, Agents' Disbursements, Genoa—Lire 6,641.00 @ 60.00				110	13	8				
,, Captain's Expenses, Genoa ..				7	19	0				
,, Stevedore at Agua Amarga ..				152	10	0				
,, Despatch Money				213	13	4				
,, Interest on Advance				10	19	9				
,, Captain's Expenses				5	15	9				
,, Port Charges, Agency, &c.—Pesetas 2,964.88 @ 26.75 ..				110	16	9				
,, Bunker Coal at Portland, 20 tons @ 18/6				18	10	0				
,, Port Charges at Portland ..				3	2	0				
,, Port Charges, &c., at Barrow ..				423	7	6				
,, Captain's Portage Bill				168	6	8				
,, Overlookers' Expenses				4	5	0				
,, Address Commissions—										
2 % on £1,395 12s. 6d. ..	27	18	3							
2½ % on £1,509 15s. 0d. ..	37	14	10							
				65	13	1				
,, Brokerage—										
5 % on £1,395 12s. 6d... ..	69	15	7							
One-third of 5 % on £1,509 15s., 5 % £75 9s. 9d. one-third ..	25	3	3							
				94	18	10				
,, Insurance Premium—For one year £1,952 10s. 8d., for two months				325	8	5				
,, Managing Owner's Commission—For one year 2/6 per ton on 2,211 tons £276 7s. 6d., for two months				46	1	3				
,, Profit on Voyage				530	11	2				
				£2,928	12	8		£2,928	12	8

§ 8.—Marine Insurance Accounts.

Marine Insurance Accounts are of an extremely technical nature, and the reader who wishes to go into the matter fully is recommended to consult the Authors' book on "*Underwriters' Accounts*" (2nd Edition, Gee & Co.).

It may be noted, however, that there are three parties to be considered in dealing with these accounts :—

(1) The Merchant.

(2) The Marine Insurance Broker.

(3) The Underwriter.

When a Merchant wishes to insure a ship or cargo he communicates with the Broker, who, in his turn, consults the Underwriters as to the rate at which they will take the risk, and thus the premium is mutually agreed upon.

This Premium is subject to a brokerage of 5 per cent., which represents the remuneration of the Insurance Broker, and also a discount of 10 per cent., which is calculated on the net figure after deducting the 5 per cent. brokerage. This Discount was originally a strictly Cash Discount, and was only allowed by the Underwriter in consideration of prompt payment. Now, however, although in theory it still remains a Cash Discount, in practice it has become the custom to allow it, no matter when the account is settled.

The Discount belongs to the Merchant, and when an account is rendered to him by the Broker this is taken into consideration. The amount which the Merchant will pay to the Broker will be the gross Premium less the 10 per cent. Discount, which, however, is not calculated on the gross Premium, but on the Premium less the 5 per cent. Brokerage as mentioned previously.

When a claim is made under a Policy it is the business of the Insurance Broker to collect the amount of the loss on behalf of his client, the Merchant, from the various Underwriters *pro rata*, receiving for his labour in so doing a Commission of 1 per cent. on the total amount of the claim. Thus the Broker will collect the full amount of the loss from

the Underwriters, and hand the same over to the Merchant, less 1 per cent. Collecting Commission.

ILLUSTRATION—

The Abyssinian Steam Ship Company insure their fleet of Steamers at Lloyd's for £180,000 for the year 1920. The terms are 6½ per cent., less Brokerage 5 per cent., Discount 10 per cent.

During the year the S.S. "Arethusa" was damaged and the Claim thereon amounted to £650. Later on in the year the S.S. "Tom Bowling," valued at £6,400, became a total wreck. The Brokers collected these claims and paid the same to the Company, deducting the usual 1 per cent. Collecting Commission.

Show the Journal Entries to record these transactions in the books of the Abyssinian Steam Ship Company, and also show the Brokers' Account.

JOURNAL.

			£ s. d.	£ s. d.	£ s. d.
Insurance Account			Dr.	10,588 10 0	
To Brokers					10,588 10 0
£180,000 @ 6½ %			11,700 0 0		
	£11,700 0 0				
Less 5 %	585 0 0				
Less 10 % on	£11,115 0 0	=	1,111 10 0		
			£10,588 10 0		
Sundries :—			Dr.		
To Repairs Account					650 0 0
Brokers				643 10 0	
Commission Account				6 10 0	
Being damage per S.S. "Arethusa" and collecting commission 1 %					
Sundries :—			Dr.		
To S.S. "Tom Bowling"—Cost Account					6,400 0 0
Brokers				6,336 0 0	
Commission				64 0 0	
Being Total Loss S.S. "Tom Bowling" and collecting commission 1 %					

LEDGER.

Dr. BROKERS' ACCOUNT. *Cr.*

	£ s. d.		£ s. d.
To Cash	10,588 10 0	By Insurance Premium	10,588 10 0
" Cl. : "Arethusa"	643 10 0	" Cash	643 10 0
" T. L. "Tom Bowling"	6,336 0 0	" "	6,336 0 0
	£17,568 0 0		£17,568 0 0

Note to Illustration.

It should be observed that "Lloyd's" is a Corporation of which both Underwriters and Insurance Brokers are Members, in precisely the same way as Stock Brokers and Jobbers are Members of the Stock Exchange. "Lloyd's" itself does not transact Insurance business with the outside public, and consequently the transactions will take place with specific Members.

The Merchants will pay the premiums to the Insurance Broker on or before the 8th of the month following the date of the Debit Note. Consequently, in the above Illustration, the premiums will be settled by cash in the first instance, and the claims will also be settled by cash separately, as no doubt they will arise at different dates.

§ 9.—Ledger Accounts for Investments.

Where investments are numerous the interest and dividends arising therefrom should be passed through the investment accounts in the ledger, so that it can be seen at a glance whether or not all the income which should have been received on each investment has been received. The best way of carrying this into effect is to have the ledger accounts for the investments ruled with two columns on either side, one for Income and another for Capital. In the case of stocks and shares it is convenient to have a third column for the Nominal Value, so that when the balance on the Investment Account is brought down, the nominal value of the balance may also be shown. The dates when the dividend or interest falls due should be noted at the head of the account.

As the income is received, Cash will be debited and the Income column of the Investment Account credited, and, at the end of the period, the total income received from each investment will be transferred to an Income from Investments Account. In cases where the dividend at the end of the period, although accrued due, has not actually been received in cash, a debit balance should be brought forward in the income column of the Investment Account. This practice, however, should not be applied to Trust Accounts.

ILLUSTRATION—

An Investment Company held during the whole of the year 1919, among other investments, £1,000 4 per cent. Debentures costing £987 in the Phœnix Iron Company, the interest being payable on the 30th June and 31st December in each year, less Income Tax at 6s.

Show in the books of the Investment Company the Ledger Account relative to the Phœnix Iron Company investment, drafted in such a way as to enable the auditor to satisfy himself at a glance that all the interest has been collected.

THE PHŒNIX IRON COMPANY FOUR PER CENT. DEBENTURE ACCOUNT.

Dr. INTEREST PAYABLE 30TH JUNE AND 31ST DECEMBER. *Cr.*

Date.	Particulars.	Fo.	Nominal Value.	Income.	Capital.	Date.	Particulars.	Fo.	Nominal Value.	Income.	Capital.
1919.			£	£	£	1919.			£	£	£
Jan 1	To Balance		1,000		987	June 30	By Cash ..			14	
Dec. 31	,, Interest on Investments Account ..			28		Dec. 31	,, ,, ..			14	
							,, Balance..		1,000		987
			£1,000	£28	£987				£1,000	£28	£987
1920.											
Jan. 1	To Balance		£1,000		£987						

It is not usual to adjust the Investment Accounts to market value at the date of each Balance Sheet, the balance being brought down at cost. In the case of Companies holding a large number of Investments,

the practice is for a Schedule to be prepared, showing the book value and the market value at the date of the Balance Sheet, a general reserve being made for depreciation if the latter is less in amount than the former. If the market value exceeds the book value, no credit should be taken, as this is not a realised profit. In cases where heavy depreciation has taken place for which no provision has been made, a note of the market value of the investments should be shown on the Balance Sheet.

The profit or loss resulting on the sale of Investments should be adjusted when the sale takes place. Where only a portion of the Investment is sold, the balance of the Investment remaining should be brought down at the price at which it stood in the books, and the difference on the account will then represent profit or loss on the portion of the Investment sold, which should be adjusted accordingly.

Where Investments are sold cum div. (which implies that the next dividend goes to the purchaser), some portion of the amount received will represent the accrued dividend on the stock sold to the date of sale, and strictly speaking the amount received should be apportioned accordingly, the amount representing accrued income to date being credited to the Income column and the balance to the capital column of the Investment Account.

In the same manner when Stocks are purchased cum div. the portion of the purchase price representing the accrued dividend should be debited to the Income column of the Investment Account, the balance being debited to the Capital column. As the stock is purchased cum div., the whole dividend will be received and credited to the Income column, as against which there will be a set-off on the debit of the amount accrued to the date of purchase.

On Government Stocks other than Bearer, the quotation is changed from cum div. to ex div. about one month before the interest is payable. In effecting this however the full payment due is deducted.

ILLUSTRATION—

A Trust Company purchases £10,000 India 3 per Cent. on 3rd March, 1919, at 60 cum div. On August 5th, 1919, £2,000 Stock is sold at 61 cum div. for cash, and on September 5th, 1919, £2,000 Stock is sold at 61½ ex div. for cash. On December 31st, 1919, the date of the Balance Sheet, the market price is 60½.

Show the Ledger Account of the Investment for the year 1919, ignoring brokerage and stamps, and making apportionments in months, and calculating Income Tax at 6s. in the £.

INDIA THREE PER CENT.

Dr. DIVIDENDS PAYABLE 5TH JANUARY, APRIL, JULY AND OCTOBER. *Cr.*

Date.		Nominal Value.	Income.	Capital.	Date.		Nominal Value.	Income.	Capital.
1919.		£ s. d.	£ s. d.	£ s. d.	1919.		£ s. d.	£ s. d.	£ s.
Mar. 3	To Cash—Purchase @ 60 c.d. ...	10,000 0 0	35 0 0	5,965 0 0	April 5	By Cash—Dividend		52 10 0	
					July 5	,, ,, ,,		52 10 0	
Dec. 31	,, Profit on Investment ...			64 0 0	Aug. 5	,, Sale @ 61 c.d....	2,000 0 0	3 10 0	1,216 10
	,, Income Account		112 0 0		Sept. 5	,, ,, @ 61½ ex.d.	2,000 0 0		1,230 0
					Oct. 5	,, Cash—Dividend on £8,000 ...		38 10 0	3 10
					Dec. 31	,, Balance @ Cost	6,000 0 0		3,579 0
		£10,000 0 0	£147 0 0	£6,029 0 0			£10,000 0 0	£147 0 0	£6,029 0
1920. Jan. 1	To Balance ...	£6,000 0 0		£3,579 0 0					

Notes to Illustration.

Since the commencement of the War it has been the practice of the Stock Exchange to treat all dealings on a cash basis. This has been given effect to in the above illustration.

The above treatment of adjusting the accrued dividend when posting the Capital items can only be utilized when the rate of dividend or interest is fixed ; otherwise, the adjustment will be made when the dividend is received.

Where, however, a cash basis is not adopted, but a monthly settlement is effected in respect of British Government Stocks as prior to 1914, adjustment must be made so as to apportion the interest up to and from the date of settlement as distinct from the date of the transaction.

Where Stock is purchased or sold "cum div." the price must be apportioned so as to give to Income the amount of interest which is included in the price.

Where Stock is sold "ex div." interest thereon from the date of the sale to the due date of the dividend should be credited to Capital.

The balance of Stock remaining in hand will be brought down at the net cost as shown by the Capital column (and not at the "cum div." price at which it was purchased), or at market value.

The above is the commercial practice adopted in order to preserve the Capital invested. It is not, however, the method adopted in connection with Trusts, where the rights of parties are defined by specific legal rules, as to which, *see* Ranking, Spicer & Pegler's "Executorship Law and Accounts."

§ 10.—Tabular Ledgers.

In certain businesses considerable labour can be saved by utilising tabular Ledgers, particularly where the transactions concerned are numerous and do not vary in their nature.

The following are some of the more usual forms of Tabular Ledgers :—

(a) Purchase Day Book and Ledger combined.

It is occasionally possible where accounts are regularly settled on a fixed monthly pay-day to dispense with the Purchase Ledger altogether

by having a specially ruled form of Purchase Day Book. These books are used with very satisfactory results by several of the large Municipalities. As the invoices are received, they are filed away in alphabetical order as relating to each creditor. At the end of each month the special Purchase Day Book will be written up from the invoices in alphabetical order. Under the name of each creditor will be inserted particulars of all the invoices relating to his account in order of date, the amounts being entered in the detail column and extended in total into the total column. Any returns or allowances should be deducted from the invoices to which they relate, and the amounts of the invoice entered in the Day Book net. When the cash is paid, the amount thereof, together with the discount (if any), will be posted in one figure from the credit of cash to the cash and discount column in the Purchase Day Book opposite to the item to which it relates. Each item in the total column will be extended into the proper subsidiary column to which it refers, and the totals of these columns will be posted monthly to the respective nominal accounts.

The following is a convenient ruling for the book, with a few specimen entries :—

ILLUSTRATION—

PURCHASE DAY BOOK AND LEDGER.

Date.	Invoice No.	Creditor.	Detail.	Total Credit.	Date Paid.	C.B. Folio.	Cash and Discount.	Materials.	Packages.	Freight.	Repairs and Renewals.	Trade Expenses
1920.			£ s. d.	£ s. d.	1920.		£ s. d.	£ s. d.	£ s. d.	£ s. d.	s. d.	£ s. d.
		Aldgate & Co.										
Feb. 3	1	Goods	13 0 0									
,, 7	2	,, ...	12 0 0									
,, 21	3	,, ...	5 0 0									
				30 0 0	Mar. 4	31	30 0 0	30 0 0				
		Braid & Pierce										
,, 5	4	Goods... ...	16 0 0									
,, 17	5	,, ...	8 0 0									
				24 0 0	Mar. 4	31	24 0 0		24 0 0			

(b) Rental Ledger.

Where a considerable number of properties are held a Rental Ledger should be utilised, which may be ruled for the purpose of recording half-yearly, quarterly or weekly rentals. An illustration is given of a Quarterly Rental Ledger.

In order to enable this book to take its place in the double entry, the totals of the Rent and Allowances columns should be posted to the credit and debit of the Impersonal Accounts respectively. The total of the Arrears carried forward column at any date will represent the outstanding debtors for rent.

ILLUSTRATION—

RENTAL LEDGER.

No.	Name of Tenant.	Particulars.	Amount of Rent.	Quarter ending..						
				Arrears brought forward.	Rent Payable.	Total.	C.B. Fo.	Cash.	Allowances.	Arrears carried forward.

(c) Electric Light, Gas or Water Rental Ledger.

The charges made by Electric Light, Gas and Water Companies are generally payable quarterly or half-yearly, and a tabular system of Consumers' Ledgers can be arranged so as to show, with a minimum of labour, the total amount due to the Company at any given date, and the amounts due by each consumer.

The following is a form of Water Rental Ledger, and similar forms can be utilised in the case of Gas or Electric Light, varied to suit the circumstances.

ILLUSTRATION—

WATER RENTAL LEDGER,

HALF-YEAR ENDING 30TH SEPTEMBER, 1920.

No. of Assessment.	Situation of Property	Description of Property.	Rateable Value.	Arrears brought forward.	Half-year's Charges.	Total Amount Due.	Date Received.	Receipt No.	Cash Received.	Empty Houses.	Otherwise Irrecoverable.	Arrears carried forward.	Total.

Note to Illustration.

In order to ascertain the Total Amount due in respect of Water charges, it will be necessary to total each page separately, such Totals being carried to a Summary Ledger. The Summary Ledger will then show the Arrears brought forward, the Half-year's charges, and the Total Amount to be collected.

The Total Amount due to the Company at any given date can be ascertained by means of a Total Account kept for each Ledger, which will be debited with the Total Amount due as shown by the Summary in the Summary Ledger, and credited with the Total Cash Paid, also with the Amounts written off for Empties and Irrecoverables. The Totals for the latter items will be obtained from the Collectors' Returns to Head Office.

The Balance due by each individual will be found on reference to his Account in the above Ledger.

Payments on account will be entered in the Cash Received Column, and where two or more payments occur in the course of any particular quarter or half-year, the second payment should be entered directly under the first in the Cash Received Column.

(d) Hotel Visitors' Ledger.

The Personal Accounts for Visitors at an Hotel can be most conveniently recorded by means of a Tabular Visitors' Ledger, which will contain similar particulars to those furnished on the Accounts rendered to visitors.

The following is a form of this Ledger :—

VISITORS' LEDGER.

Friday, 3rd September, 1920.

DEBITS.	1	2	3	4	5	6	7	8	9	10	DEBITS.	Total.
	Name.	Name.	Name.	Name.	Name.	Name.	Name.	Name	Name.	Name.		
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		
Brought for.	1 12 7										Brought for.	
Apartments	12 0										Apartments	
Board ...											Board, &c.	
Coals											Coals... ...	
Breakfasts	7 0										Breakfasts	
Luncheons, &c.		4 0									Luncheons	
Dinners ...	10 0	5 0									Dinners ...	
Tea, Coffee, Milk	1 0	6									Tea, Coffee, Milk	
Wine...	5 0										Wine	
Spirits		1 6									Spirits	
Beer											Beer	
Minerals											Minerals	
Cigars and Cigarettes											Cigars and Cigarettes	
Laundry											Laundry	
Paid out ...											Paid out	
&c.											&c.	
Total £	3 7 7	11 0									Total £	
CREDITS.											CREDITS.	
Cash	3 7 7										Cash ...	
Allowances ...											Allowances ...	
Personal a/cs...											Personal a/cs	
Bal. car. for.		11 0									Bal. car. for.	
Total £	3 7 7	11 0									Total £	

Note to Illustration.

A separate page or pages are opened for each day's transactions, and a column provided therein for each visitor, numbered with the number of his room. The amount brought forward at the commencement of the page in each column represents the balance due at the commencement of the day from the visitor concerned. When an account is settled, as in column (1) of the Illustration, the cash received is entered as a credit, and there will be no balance to be carried forward to the next day's page.

Where circumstances render it desirable, the amount due at any date from a visitor can be transferred to a Ledger Account in the Personal Ledger, and in this way taken out of the Visitors' Ledger.

The daily totals in respect of each heading, both debits and credits, will be entered in the total column on the right-hand side, and transferred to a Summary Ledger, from which can be obtained the monthly, quarterly, or half-yearly totals, as the case may be. These will be utilised for the purpose of the Impersonal Accounts.

(e) Plant Ledger.

It is sometimes advantageous to utilise a Plant Ledger for the purpose of keeping a separate account for each machine, showing the cost or value thereof, amounts spent each year on alterations and additions, on renewals and repairs, and also the amounts written off for depreciation.

The following ruling will be found convenient :—

PLANT LEDGER.

GAS ENGINE NO. 3. Bought 1st March, 1918, for £840, for driving in Shed B.

Date.	Particulars.	Folio.	Cost or Valuation.	Alterations and Additions.		Repairs and Renewals.		Total.	Date.	Particulars	Folio.	Repairs and Renewals.	Depreciation.	Total.
				Wages.	Materials.	Wages.	Materials.							
			£ s. d	£ s. d.	£ s. d	£ s. d	£ s. d.	£ s. d.				£ s. d.	£ s. d.	£ . d.
1919. July 1	To Balance as per valuation		600 0 0					600 0 0	1919. Dec. 31	By Depreciation 10 % on £600 for six months ..			30 0 0	30 0 0
Sept. 30	To alterations as per analyses			5 10 0	2 0 0			7 10 0		By Repairs A/c		4 0 0		4 0 0
Oct. 31	To Jones & Co. Repairs to cylinders						4 0 0	4 0 0				4 0 0	30 0 0	34 0 0
										By Balance ..				577 10 0
			600 0 0	5 10 0	2 0 0		4 0 0	611 10 0						611 10 0
			£ s. d.					£ s. d.						
1920. Jan. 1	To Balance ..		577 10 0					577 10 0						

§ 11.—Loose-leaf and Card Ledgers.

Within recent years the introduction of Loose-leaf or Card Systems of Ledgers has become increasingly familiar, and in certain cases there can be no doubt that the advantages to be derived from the use of such systems are considerable.

A Loose-leaf Ledger is one, the leaves of which are not bound together in the ordinary way, but inserted in a locking apparatus in such a manner that they can be withdrawn, or new leaves inserted, by a very simple operation.

A Card Ledger involves the utilisation of separate cards for each Ledger Account, which are filed away in alphabetical order in Cabinets. As the Cards have to be withdrawn from the Cabinet for the purpose of writing upon them, it is not possible to take the same precautions against

substitution as in the case of Loose-leaf Ledgers, where the key locking the Ledger can be kept under the control of some responsible official, and the Card System should therefore not be utilised unless strict supervision is enforced.

The Card System is very much utilised for statistical purposes, such as the keeping of Stock Accounts, Cost Accounts, and for the analysis of Sales over various zones or divisions. It has been very usefully employed in the case of a Stockbroker's business, for the purpose of analysing the Purchases and Sales made on behalf of each client, so that a partner desiring to ascertain the transactions that any particular client has been concerned in, has only to call for the Card in question, when the full record of the transactions can be seen at a glance.

The following are other advantages to be derived by utilising these systems :—

(1) The Ledgers are continuous, inasmuch as additional pages or Cards can be inserted as required, and it is therefore unnecessary to open new ledgers altogether at any one time.

(2) Closed and dead accounts can be withdrawn from the Ledger, and filed separately. This avoids the necessity of having to keep such a large number of accounts in the Current Ledgers.

(3) For the purposes of taking out balances or of checking postings, the sheets or cards can, if necessary, be divided up over a large number of clerks.

The disadvantages of these Systems are as follows :—

(1) As additional leaves are inserted as required, the ledgers cannot be folioed in the ordinary manner, though this can be done to a partial extent under the heading of each letter. In any case, the Accounts must be arranged in alphabetical order, and the usual posting folios cannot appear in the books of Prime Entry.

(2) The possibility of Sheets or Cards being accidentally lost or destroyed.

(3) There is a danger of a fraudulent substitution of one Sheet or Card for another, in order to conceal defalcations; or Sheets or Cards might be destroyed on purpose for a similar reason.

(4) It is possible that Loose-leaf or Card Ledgers might not be admitted as sufficient evidence in a Court of Law, owing to the possibility of substitution; but this need not be regarded as a serious disadvantage, since in any case there is usually some additional evidence for the entry, apart from the record in the Ledger.

As regards (2) and (3), these disadvantages may be overcome to a large extent by the introduction of proper rules and regulations, which are described in Chapter 15, § 5 (*d*), under the heading of "Internal Check."

§ 12.—Stock Exchange Transactions.

Since the commencement of the War, it has been the practice of the Stock Exchange to treat all dealings on a cash basis. As a consequence the carrying over of transactions has ceased, eliminating Contango Charges.

The Pre-War practice is dealt with in this Section.

A full description of all the financial books necessary for recording the transactions of a Stockbroker's business and of the machinery employed for settlements between Members of the Stock Exchange is not possible within the limits of this work. The books of Prime Entry are generally of elaborate design, aiming at a proper record of transactions so far as they affect persons, and at the collection of impersonal details into totals, for posting to the Nominal Accounts concerned.

The broker dealing in stocks or shares on behalf of a client either buys from, or sells to, a Jobber. In obtaining a price from the Jobber he does not intimate whether he desires to buy or sell, and the quotation given consists generally of two prices differing slightly in amount. For instance, Victoria 3½ per Cent. might be quoted 95-95½. This intimates that the Jobber is willing to buy at the lower price, or sell at the higher price.

When the transaction has been carried through, the Broker sends a Contract Note to the client. In the case of a Purchase, this is called a Bought Note, and shows the amount due from the client for the Stock bought, plus the commission at the agreed rate, and the cost of the Contract Stamp. In the case of a Sale, it is called a Sold Note, and shows the amount due to the client for the Stock sold, less commission at the agreed rate, and the cost of the Contract Stamp.

The Commission or Brokerage is according to the official Scale, and takes the form of a percentage on the Stock or of the money, or a fixed sum per share, or in certain cases a discretionary charge.

The Client's Account is debited or credited with the various amounts due from or to him in respect of these transactions, and the balance of the account should be paid simultaneously with the delivery of the Stock upon the following Settling Day. If the Client does not wish to take up the Stock or Shares bought for him at the first Settling Day, the bargains can be carried over to the next Settling Day by arrangement with the Broker.

The stocks concerned will be carried forward to the New Account at the making-up price of the current Settlement as fixed by the Stock Exchange Committee, and only the balance of the Old Account is then due to or from the Client in cash.

The New Account, in addition to being debited with the Stock or Shares carried over, is charged with the agreed Contango, this being the consideration in the nature of Interest due to the Broker for the accommodation.

ILLUSTRATION—

S. Fuller enters into the following transactions with his Stockbrokers, H. Simpson & Co., of the London Stock Exchange:—

On the 16th July he buys £10,000 Consols at 45.

On the 20th July he buys £12,000 Midland Deferred at 50.

On the 23rd July he buys £9,000 Great Eastern Ordinary at 30.

On the 24th July he sells £10,000 Consols at 45½.

On the Consols Messrs. Simpson & Co. charge a commission of one-eighth per cent. on the nominal value of the stock, and on the Railway Stocks one-quarter per cent. on the stock. At the close of the Account S. Fuller carries forward the Midland and Great Eastern stocks at 51 and 30½ respectively, contango being charged at 5 per cent. per annum on the amount due, and the following account being a 15-day account.

Show S. Fuller's Account in Messrs. H. Simpson & Co.'s Books, ignoring Contract Stamps.

Dr. S. FULLER. *Cr.*

Date		£ s. d.	£ s. d.	Date		£ s. d.	£ s. d.
July 16	To £10,000 Consols @ 45 ..	4,500 0 0		July 24	By £10,000 Consols @ 45½ ..		4,550 0 0
	Commission	12 10 0			,, Stocks carried forward :—		
			4,512 10 0		£12,000 Midland Deferred		
,, 20	,, £12,000 Midland Deferred				@ 51	6,120 0 0	
	@ 50	6,000 0 0			£9,000 Great Eastern		
	Commission	30 0 0			Ordinary @ 30½ ..	2,745 0 0	
			6,030 0 0				8,865 0 0
,, 23	,, £9,000 Great Eastern Ordinary @ 30	2,700 0 0					
	Commission	22 10 0					
			2,722 10 0				
	,, Cash		150 0 0				
			£13,415 0 0				£13,415 0 0
	To Balance forward :—						
	£12,000 Midland Deferred						
	@ 51	6,120 0 0					
	Contango	12 11 6					
	£9,000 Great Eastern Ordinary @ 30½	2,745 0 0					
	Contango	5 12 10					
			8,883 4 4				

Note to Illustration.

In practice the Commission and Stamp are included with the Stock, the Client's Ledger Account only showing the total of the transaction. The contango is treated in a similar manner.

In the event of speculative transactions by a Company, such as a Finance Company, being open on the Stock Exchange at the date of the Company's Balance Sheet, the question arises as to how the liability attaching thereto should be stated.

Where Stocks have been purchased, but not paid for, being carried over to a subsequent account, it is clear that there is a liability on the part of the Company to take up this Stock, but on the other hand, they may sell it before the Settling Day, and the liability will then resolve itself into a settlement of differences, and if the transaction has resulted in a profit no liability will accrue at all. In the same manner, when Stocks have been sold which the Company does not possess, and the transaction has been carried forward, there is a liability on the part of the Company to purchase the Stock for delivery, and such purchase may have to be made at a higher rate than the price at which the stock was sold.

Until these transactions are closed, therefore, it is impossible to ascertain precisely the amount of liability attaching to them. Where the transaction has been closed before the preparation of the accounts, but after the date of the Balance Sheet, any loss which has accrued may

be provided for, and the liability can be precisely stated. Where, however, the transactions are not closed, a note should be made on the face of the Balance Sheet, to the effect that there is a contingent liability in respect of transactions open on the Stock Exchange; and where loss is expected, of which it is possible to make some estimate, a reserve should be made accordingly.

It may be noted that the operation of purchasing Stock and not taking up same, but carrying it forward in the hope of selling at a higher price, is termed to "bull" the Stock. The contrary operation of selling Stock and not delivering the same, but carrying it forward in the hope of being able to purchase at a lower price, is termed to "bear" the Stock.

§ 13.—Outstanding Costs in the Business of a Professional Man.

At the end of each financial period there will be a certain amount of uncompleted work in hand for which accounts have not been sent out to the Clients.

Before arriving at the Profit or Loss for the period under review, the value of this outstanding work should be taken into account, as the period in which the work has been done should get the benefit of the proportionate part of the fee. It is unwise to debit the Clients' Accounts until bills have been actually rendered, as this may very easily lead to confusion and difficulties.

The best method is to pass an entry through the Journal, debiting Work in Progress, and crediting Fees and Charges Account. In the narrative of this Journal entry, full details of how the amount has been arrived at, together with the names of the various clients concerned, should be given. In estimating the value of outstanding work, full allowance should be made for contingencies and possible reductions in account, and only a very conservative valuation taken into consideration.

It is not usual in practice to open a special account for Work in Progress, but to bring down a debit balance on the Fees and Charges Account. This will be brought into the Balance Sheet as an asset, under the heading of "Uncompleted Work."

ILLUSTRATION—

F. Adams started in practice as a Professional Accountant on the 1st July, 1919. He decides to prepare Accounts half-yearly, on the 30th June and 31st December in each year.

The net fees for the half-years ending 31st December, 1919, and 30th June, 1920, amounted to £487 and £621 respectively, and the uncompleted work was estimated at 31st December, 1919, to be worth £126, and at 30th June, 1920, £233.

Show the Fees and Charges Account for the two periods, bringing down as a debit balance on the account the amount of uncompleted work at the end of each period. Also show the Journal entry necessary to record the uncompleted work at 31st December, 1919.

The following is a list of clients for whom work was done during the six months ending 31st December, 1919, but to whom no accounts had been rendered; together with the estimated value of such work :—

	£	s.	d.
P. Robinson	42	0	0
F. Smith	63	0	0
W. Fuller	5	5	0
H. Sadler	15	15	0
	£126	0	0

Dr. FEES AND CHARGES ACCOUNT. *Cr.*

		£ s. d.			£ s. d.
1919.			1919.		
Dec. 31	To P. & L. Account ..	613 0 0	Dec. 31	By Sundries	487 0 0
			"	" Balance for Uncompleted work	126 0 0
		£613 0 0			£613 0 0
1920.			1920.		
Jan. 1	To Balance	126 0 0	June 30	By Sundries	621 0 0
June 30	" P. & L. Account ..	728 0 0	"	" Balance for Uncompleted work	233 0 0
		£854 0 0			£854 0 0
July 1	To Balance	£233 0 0			

JOURNAL.

		£ s. d.	£ s. d.
Uncompleted Work Account..	*Dr.*	126 0 0	
To Fees and Charges Account			126 0 0
Being estimated value of Uncompleted work at 31st December 1919, as follows :—			
P. Robinson 42 0 0			
F. Smith.. .. .. 63 0 0			
W. Fuller 5 5 0			
H. Sadler 15 15 0			
£126 0 0			

§ 14.—Assurance Companies' Accounts.

The Assurance Companies' Act, 1909, which came into force 1st July, 1910, repealed the Life Assurance Companies' Act, 1870, under which special forms of Account were rendered compulsory for Life Assurance Companies.

These forms were also repealed, and new forms were prescribed which appear as Schedules to the Assurance Companies' Act, 1909, and relate to Companies carrying on the following classes of business:—

(*a*) Life Assurance.

(*b*) Fire Insurance.

(*c*) Accident Insurance.

(*d*) Employers' Liability Insurance.

(*e*) Bond Investment Business.

The usual Accounts take the form of a Revenue Account, Profit and Loss Account (except where the Company carries on an Assurance business of one kind only, and no other business) and Balance Sheet. The Revenue Account shows on the debit side the amount of funds at the commencement of the year, Premiums, &c.; and on the credit side, Claims, &c., and Expenses of Management.

The balance of this Account represents the amount of the funds at the end of the year, and shows as such in the Balance Sheet. It should be particularly noted that both in the Revenue Account and in the Profit and Loss Account the Income appears on the debit side, and the Expenditure upon the credit side.

The following are the forms of Account prescribed:—

ILLUSTRATION—

FIRST SCHEDULE.

N.B.—Where marine insurance business, or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive general account.

(*A*.)—FORM APPLICABLE TO LIFE ASSURANCE BUSINESS.

REVENUE ACCOUNT OF THE FOR THE YEAR ENDING 19
IN RESPECT OF LIFE ASSURANCE BUSINESS.

—	Business within the United Kingdom	Business out of the United Kingdom.	Total.	—	Business within the United Kingdom.	Business out of the United Kingdom.	Total.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
				Claims under Policies paid and outstanding:—			
Amount of Life Assurance Fund at the beginning of the year	—	—		By Death			
Premiums				By Maturity			
Consideration for Annuities granted				Surrenders, including Surrenders of Bonus			
				Annuities			
£ s. d.				Bonuses in Cash			
Interest, Dividends, and Rents ..				Bonuses in Reduction of Premiums			
				Commission			
Less Income Tax thereon				Expenses of Management ..	—	—	
	—	—		Other payments (accounts to be specified)..	—	—	
Other Receipts (accounts to be specified)	—	—		Amount of Life Assurance Fund at the end of the Year, as per Third Schedule ..	—	—	
£				£			

NOTE 1.—Companies having separate accounts for Annuities to return the particulars of their Annuity business in a separate statement.

NOTE 2.—Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.

NOTE 3.—Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

NOTE 4.—If any sum has been deducted from the expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

NOTE 5.—Particulars of the new Life Assurances effected during the year of account to be appended to the above Account, showing separately, as respects business within and business out of the United Kingdom, the number of Policies, the total sums assured, the amount received by way of single premiums, and the amount of the yearly renewal premium income, the items to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks. The particulars as to yearly renewal premium income need not be furnished in respect of Industrial business.

NOTE 6.—The columns headed "Business out of the United Kingdom," in the case of Companies having their Head Office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.

(*B.*)—FORM APPLICABLE TO FIRE INSURANCE BUSINESS.

REVENUE ACCOUNT OF THE   FOR THE YEAR ENDING   19

IN RESPECT OF FIRE INSURANCE BUSINESS.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of Fire Insurance Fund at the beginning of the year :—			Claims under Policies paid and outstanding ..		
Reserve for unexpired risks ..			Commission		
Additional Reserve (if any) ..			Expenses of Management		
			Contributions to Fire Brigades		
Premiums			Other Payments (accounts to be specified) ..		
	£ s. d.			£ s. d.	
Interest, Dividends, and Rents ..			Amount of Fire Insurance Fund at the end of the year as per Third Schedule :—		
Less Income Tax thereon ..			Reserve for unexpired risks being per cent. of premium income for the year		
Other Receipts (accounts to be specified) ..			Additional Reserve (if any) ..		
		£			£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(*C.*)—FORM APPLICABLE TO ACCIDENT INSURANCE BUSINESS.

REVENUE ACCOUNT OF THE   FOR THE YEAR ENDING   19

IN RESPECT OF ACCIDENT INSURANCE BUSINESS.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of Accident Insurance Fund at the beginning of the year :—			Payments under Policies, including Medical and Legal Expenses in connection therewith		
Reserve for Unexpired Risks ..			Commission		
Total estimated liability in respect of outstanding claims			Expenses of Management		
Additional Reserve (if any) ..			Other Payments (accounts to be specified) ..		
				£ s. d.	
Premiums			Amount of Accident Insurance Fund at the end of the year as per Third Schedule :—		
	£ s. d.		Reserve for Unexpired Risks being per cent. of Premium Income for the year		
Interest, Dividends and Rents ..			Total estimated liability in respect of outstanding claims as per Fourth Schedule (C) ..		
Less Income Tax thereon			Additional Reserve (if any) ..		
Other Receipts (accounts to be specified) ..					
		£			£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(*D.*)—FORM APPLICABLE TO EMPLOYERS' LIABILITY INSURANCE BUSINESS.

REVENUE ACCOUNT OF THE FOR THE YEAR ENDING 19 IN RESPECT OF EMPLOYERS' LIABILITY INSURANCE BUSINESS TRANSACTED WITHIN THE UNITED KINGDOM.

	£ s. d.	£ s. d.			£ s. d.
Amount of Employers' Liability Insurance Fund at the beginning of the year :— Reserve for unexpired risks			Payments under Policies, including medical and legal expenses in connection therewith		
Total Estimated Liability in respect of Outstanding claims			Commission		
Additional Reserve (if any)			Expenses of Management		
Premiums			Other Payments (Accounts to be specified		
	£ s. d.		Amount of Employers' Liability Insurance Fund at the end of the year, as per Third Schedule :	£ s.	
Interest, Dividends, and Rents			Reserved for Unexpired Risks, being per cent. of Premium Income for the year		
Less Income Tax thereon..			Total Estimated Liability in respect of Outstanding claims, as per Fourth Schedule (D)		
Other Receipts (Accounts to be specified)			Additional Reserve (if any)		
	£			£	

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(*E.*)—FORM APPLICABLE TO BOND INVESTMENT BUSINESS.

REVENUE ACCOUNT OF THE FOR THE YEAR ENDING 19 IN RESPECT OF BOND INVESTMENT AND ENDOWMENT CERTIFICATE BUSINESS.

	£ s. d.	£ s. d.			£ s. d.
Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year ..			Claims under Bonds and Certificates, paid and outstanding		
Additional Reserve (if any) ..			Commission		
Premiums			Expenses of Management		
	£ s. d.		Other Payments (accounts to be specified)		
Interest, Dividends, and Rents..				£ s. d.	
Less Income Tax thereon..			Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule		
Other Receipts (accounts to be specified)..			Additional Reserve (if any) ..		
	£			£	

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE FOR THE YEAR ENDING 19

	£ s. d.	£ s. d.		£ s. d.
Balance of last year's Account			Dividends and Bonuses to Shareholders ..	
Interest and Dividends not carried to other Accounts			Expenses not charged to other Accounts ..	
Less Income Tax thereon ..			Loss realised (accounts to be specified) ..	
			Other payments (accounts to be specified) ..	
Profit realised (accounts to be specified)			Balance as per Third Schedule	
Other Receipts (accounts to be specified)				
£			£	

THIRD SCHEDULE.

BALANCE SHEET OF THE ON THE 19

LIABILITIES.	£ s. d.	ASSETS.	£ s. d.
Shareholders' Capital paid up (if any) .. £		Mortgages on Property within the United Kingdom	
Life Assurance Funds* :—		Do. do. out of the United Kingdom	
Ordinary Branch		Loans on Parochial and other Public Rates ..	
Industrial do.		Do. Life Interests	
Annuity Fund*..		Do. Reversions	
Fire Insurance Fund		Do. Stocks and Shares	
Accident Insurance Fund		Do. Company's Policies within their Surrender values	
Employers' Liability Insurance Fund ..		Do. Personal Security	
Bond Investment and Endowment Certificate Fund		Investments :—	
Marine Insurance Fund		Deposit with the High Court (Securities to be specified)	
Sinking Fund and Capital Redemption Fund		British Government Securities	
Profit and Loss Account		Municipal and County Securities, United Kingdom	
Other Funds (if any) to be specified		Indian and Colonial Government Securities ..	
£		Do. Provincial Securities ..	
		Do. Municipal do. ..	
Claims admitted or intimated but not paid† ..		Foreign Government Securities	
Life Assurance		Do. Provincial Securities	
Fire Insurance		Do. Municipal do. .. .	
Bond Investment		Railway and other Debentures and Debenture Stocks—Home and Foreign	
		Railway and other Preference and Guaranteed Stocks	
Annuities due and unpaid†		Do. Ordinary Stocks	
Other sums owing by the Company† (to be stated separately under each class of business).. ..		Rent Charges	
		Freehold Ground Rents	
		Leasehold do.	
		House Property	
		Life Interests	
		Reversions	
		Agents' Balances	
		Outstanding Premiums†	
		Do. Interest, Dividends, and Rents† ..	
		Interest accrued but not payable†	
		Bills Receivable	
		Cash :	
		On Deposit	
		In Hand and on Current Account . ..	
		Other Assets (to be specified)	
£		£	

* Life Companies having separate annuity fund to show amount thereof separately.

† These items are or have been included in the corresponding items in the First Schedule.

NOTE 1.—When part of the assets of the Company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of Policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business, except that, in the case of fire, accident, or Employers' Liability Insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited.

NOTE 2.—A Balance Sheet in the above Form must be rendered in respect of each separate Fund for which separate Investments are made.

NOTE 3.—The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a Certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any Investment Reserve Fund taken into account. In the case of a Company transacting Life Assurance business or Bond Investment business, this Certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made.

NOTE 4.—In the case of a Company required to keep separate funds under section 3 of this Act, a Certificate must be appended, signed by the same persons as signed the Balance Sheet, and by the Auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable.

Every Assurance Company must, once in every five years, or at such shorter intervals as may be prescribed by its regulations, cause an investigation to be made into its financial position, including a valuation of its Liabilities by an Actuary. In the case of Life Companies it is necessary to make an Actuarial Valuation of the net Liabilities outstanding before arriving at the profits, and it is therefore only possible to ascertain these exactly when the Valuation Balance Sheet above referred to is prepared. The excess of the Life and Annuity Funds over the net liability on Life Assurance and Annuity transactions is then regarded as profit. Such profit is usually divided in certain proportions between the Policyholders and the Shareholders, the proportion going to the former being termed a bonus.

In the case of Mutual Companies, the whole of the profit goes to the Policyholders.

This method of ascertaining a profit is similar to the principle of ascertaining profit under Single Entry. It must not be supposed, however, that the Accounts of these companies are kept by Single Entry, and the term in this connection is really a misnomer. The profit having been arrived at in the above manner by actuarial calculation, is dealt with on the principle of Double Entry, by debiting Life Assurance Account and crediting Profit and Loss Account.

Double Entry is not only applicable to Life Insurance Companies' Accounts, but is the only system under which they can be properly recorded.

The following is the form of Valuation Balance Sheet prescribed :—

(Form referred to under Heading No. 7 in Fourth Schedule (A).)

Dr. VALUATION BALANCE SHEET OF AS AT 19 *Cr.*

	£		£
To net Liability under Life Assurance and Annuity transactions (as per Summary Statement provided in Fourth Schedule (A))		By Life Assurance and Annuity Funds (as per Balance Sheet under Schedule 3)	
To Surplus (if any)		By Deficiency (if any)	
£		£	

ILLUSTRATION—

From the following Ledger Balances of a Life Insurance Office, doing business within the United Kingdom only, prepare a Revenue Account and a Balance Sheet :—

	£	s.	d.
Claims (less Re-insurances)	77,897	8	1
Mortgages on Property within the United Kingdom	334,400	0	0
Endowment Policies matured	28,914	15	4
Endowment Policies matured but not paid	9,145	19	4
Mortgages on Parochial and Borough Rates	360,685	15	1
Annuities due but not paid	200	0	0
Policies surrendered	8,692	8	3
Consideration for Annuities granted	2,014	1	9
Annuities	12,670	15	1
Interest, Dividends, and Rents received	64,709	4	0
Loans on Policies within their Surrender value	121,563	13	6
Claims outstanding from previous years	833	9	3
Medical Fees	800	0	0
Agents' Balances due by Office	127	13	3
Premiums on Credit Policies fully secured	1,300	0	0
Directors' Remuneration..	2,381	12	6
Funds at beginning of year	1,730,292	11	5
Premiums (less paid for Re-insurance)	132,302	8	8
Auditors' Fees	152	10	0
Actuary's Fee (Consulting)	35	0	0
Agents' Balances	17,898	0	0
Commission due but not paid	128	1	6
Funds at end of year	1,694,853	11	5
Outstanding Premiums	2,258	8	4
Salaries and Income Tax	8,155	6	6
Printing, Rent, &c.	4,998	17	8
Cash Bonuses Paid	85,841	2	11
Commission	4,004	10	0
Life Interest and Reversions	8,763	18	1
Claims admitted but not paid	8,766	4	7
Cash in hand and at Bank	2,791	18	2
Outstanding Interest, due to Office	18,263	4	8
British Government Securities	54,852	17	10
Indian and Colonial Government Securities	121,300	0	0
Fines and Fees received	79	11	11
Railway and other Debentures	125,553	7	4
Railway Stocks, Preference	333,790	8	0
Freehold Ground Rents	210,628	13	4

BALANCE SHEET.

Liabilities.	£ s. d.	£ s. d.	Assets.	£ s. d.	£ s. d.
Life Assurance Fund		1,694,853 11 5	Mortgages on Property within the United Kingdom.. ..		334,400 0 0
Claims outstanding from previous year	833 9 3		Loans on Parochial and Borough Rates		360,685 15 1
Claims admitted but not paid ..	8,766 4 7		Loans on Life Interests and Reversions..		8,763 18 1
Endowment Policies matured but not paid	9,145 19 4	18,745 13 2	Loans on Company's Policies within their Surrender values		121,563 13 6
Annuities due but not paid ..		200 0 0	Premiums on Credit Policies ..		1,300 0 0
Agents' Balances due by Office ..		127 13 3	Investments :—		
Commission due but not paid ..		123 1 6	British Government Securities	54,852 17 10	
			Indian and Colonial Government Securities	121,300 0 0	
			Railway and other Debentures	125,553 7 4	
			Railway Stocks, Preference..	333,790 8 0	
			Freehold Ground Rents ..	210,628 13 4	846,125 6 6
			Agents' Balances		17,898 0 0
			Outstanding Premiums		2,258 8 4
			Outstanding Interest		18,263 4 8
			Cash in hand and on Current Account		2,791 13 2
		£1,714,049 19 4			£1,714,049 19 4

Dr. REVENUE ACCOUNT. *Cr.*

	£ s. d.		£ s. d.	£ s. d.
Amount of Life Assurance Fund at the beginning of the year ..	1,730,292 11 5	Claims under Policies paid and outstanding (after deduction of sums Re-insured) :—		
Premiums (less paid for Re-insurances)	132,302 8 8	By Death	77,897 8 1	
Consideration for Annuities granted	2,014 1 9	By Maturity	28,914 15 4	
Interest, Dividends and Rents received	64,709 4 0			106,812 3 5
Fines and Fees received	79 11 11	Surrenders		8,692 8 3
		Annuities		12,670 15 1
		Bonuses Paid		85,841 2 11
		Commission		4,004 10 0
		Expenses of Management :—		
		Medical Fees	800 0 0	
		Directors' Remuneration ..	2,381 12 6	
		Auditors' Fees	152 10 0	
		Actuary's Fee (consulting) ..	35 0 0	
		Salaries and Income Tax ..	8,155 6 6	
		Printing, Rent, &c.	4,998 17 8	
				16,523 6 8
		Amount of Life Assurance Fund at the end of the year, as per Third Schedule		1,694,853 11 5
	£1,929,397 17 9			£1,929,397 17 9

§ 15.—Accounts of Charitable Institutions.

The accounts of Charitable Institutions present no outstanding features of any difficulty, and it is proposed here to deal merely with various forms and books of account which necessitate special rulings.

(a) Specified Forms of Accounts.

In connection with Hospital Accounts, those institutions receiving grants from the King Edward's Hospital Fund for London, the Metropolitan Hospital Sunday Fund, and the Hospital Saturday Fund, are required to prepare accounts in a specified form.

The Income and Expenditure Account is so arranged that the various sources of income and expenditure, both ordinary and extraordinary, may be clearly seen and readily compared with those of previous periods. The Income is shown on the debit side, and the Expenditure on the credit side, reversing the usual practice.

The official forms of both Income and Expenditure Account and Balance Sheet are copyright, and are reproduced here by permission.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING THE 31ST DECEMBER, 19 .

Revised Form, February, 1909.

Dr.

INCOME.	£ s. d.	£ s. d.	£ s. d.
A. ORDINARY :—			
I. ANNUAL SUBSCRIPTIONS (*see* page)... ..			
II. DONATIONS (*see* page)			
Boxes (*see* page)			
III. KING EDWARD'S HOSPITAL FUND FOR LONDON			
IV. HOSPITAL SUNDAY FUND			
V. HOSPITAL SATURDAY FUND			
VI. CONGREGATIONAL COLLECTIONS (apart from Hospital Sunday Fund)			
VII. WORKMEN'S COLLECTIONS (apart from Hospital Saturday Fund)			
VIII. ENTERTAINMENTS (*the gross proceeds of Festivals, Bazaars, Dinners, or other Entertainments for general purposes to be separately shown here*)			
IX. INVESTED PROPERTY—			
Dividends			
Rents			
Income Tax Returned			
Interest on Deposit or Current Account ..			
X. NURSING INSTITUTION—			
Private Nurses			
Nurses' and Probationers' Fees			
XI. PATIENTS' PAYMENTS—			
In-Patients			
Out-Patients			
XII. OTHER RECEIPTS—			
TOTAL ORDINARY INCOME ..			

Cr.

EXPENDITURE.	£ s. d.	£ s. d.	£ s. d.
A. MAINTENANCE :—			
I. PROVISIONS—			
1. Meat			
2. Fish, Poultry, &c.			
3. Butter, Bacon, &c.			
4. Eggs			
5. Milk			
6. Bread, Flour, &c.			
7. Grocery			
8. Vegetables and Fruit			
9. Malt Liquors..			
10. Aërated Water and Ice			
II. SURGERY AND DISPENSARY—			
1. Drugs, Chemicals, Disinfectants, &c. ..			
2. Dressings, Bandages, &c.			
3. Instruments and Appliances			
4. Wines and Spirits			
5. Sundries..			
III. DOMESTIC—			
1. Renewal and repair of Furniture			
2. " " Bedding and Linen			
3. " " Hardware, Crockery, Brushes, &c. ..			
4. Washing done off Hospital premises (*average weekly number of articles*)*			
5. Cleaning and Chandlery			
6. Water..			
7. Fuel and Lighting—			
(*a*) Coal			
(*b*) Gas			
(*c*) Electric Current			
(*d*) Oil, Wood, &c.			
8. Uniforms (Nurses', Porters', &c.).. ..			
9. Sundries			
IV. ESTABLISHMENT—			
1. Insurance			
2. Renewals and Repairs			
3. Annual Cleaning			
4. Garden			
V. SALARIES, WAGES, &c.—			
1. Medical			
2. Dispensing			
3. Nursing			
4. Other Officers			
5. Mechanics, &c.			
6. Porters			
7. Domestic Servants			
8. Scrubbers			
9. Pensions..			

* In cases where the whole or any part of the washing is done on Hospital premises insert "*See* Return on p. ," or "*See also* Return on p. ," as the case may be.

Income			
B. EXTRAORDINARY—			
I. LEGACIES—			
The Executors of			
II. FESTIVALS, BAZAARS, &c.—			
For New Buildings or Equipment, or for the Extinction of Debt incurred for such purposes			
For Endowment or other capital purposes ..			
TOTAL EXTRAORDINARY INCOME..			
TOTAL INCOME ..			
BALANCE, BEING EXCESS OF TOTAL EXPENDITURE OVER TOTAL INCOME FOR THE YEAR			
		£	

Expenditure			
VI. MISCELLANEOUS—			
1. Printing and Stationery			
2. Postages			
3. Advertisements			
4. Sundries..			
TOTAL COST OF MAINTENANCE ..			
B. ADMINISTRATION :—			
I. MANAGEMENT—			
1. Official Salaries			
2. Pensions			
3. Official Printing and Stationery			
4. Official Postage and Telegrams			
5. Official Advertisements			
6. Law Charges			
7. Auditors' Fee			
8. Sundries			
II. FINANCE—			
1. Appeals			
2. Commission			
3. Festivals, Bazaars, &c.			
TOTAL COST OF ADMINISTRATION ..			
TOTAL COST OF MAINTENANCE AND ADMINISTRATION			
C. RENT, RATES AND TAXES :—			
I. RENT			
II. RATES AND TAXES			
TOTAL RENT, RATES AND TAXES ..			
TOTAL ORDINARY EXPENDITURE ..			
D. EXTRAORDINARY EXPENDITURE :—			
I. INTEREST			
II. CONTRIBUTIONS TO OTHER INSTITUTIONS— ..			
III. FESTIVALS, BAZAARS, &c.—			
For New Buildings or Equipment, or for the Extinction of Debt incurred for such purposes			
For Endowment or other capital purposes ..			
TOTAL EXTRAORDINARY EXPENDITURE ..			
TOTAL EXPENDITURE ..			
BALANCE, BEING EXCESS OF TOTAL INCOME OVER TOTAL EXPENDITURE FOR THE YEAR			
		£	

This Form is reprinted by permission from pp. 14 and 15 of the uniform system of Hospital Accounts as revised and adopted by King Edward's Hospital Fund for London, the Metropolitan Hospital Sunday Fund, and the Hospital Saturday Fund (second edition, February, 1909), published by George Barber, 23, Furnival Street, Holborn, London, E.C. Full explanations will be found in the above-mentioned publication.

ILLUSTRATION—

BALANCE SHEET, 31st December, 19 .

Revised Form, February, 1909.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
1. To Sundry Creditors:— *(To include all Tradesmen's unpaid accounts and accrued liabilities.)*			1. By Cash at Bank and in Hand:— (*a*) Generally on account of the Hospital .. .. .. (*b*) On account of Special Funds— *(Separating uninvested or unexpended Capital from unexpended Income Balances.)*		
2. ,, Loans to Hospital:— *(To be detailed.)*			2. ,, Sundry Debtors:—		
3. ,, Capital Accounts:— (A) For Special Purposes— (*a*) Hospital Endowments: (*b*) Other Special Purposes: (B) For Buildings and Equipment— (C) For General Purposes—			3. ,, Investments on Capital Accounts:— *(As detailed on pages)* (A) For Special Purposes— (*a*) Hospital Endowments .. (*b*) Other Special Purposes .. (B) For Buildings and Equipment .. (C) For General Purposes		
4. ,, Unexpended Income Balances of Special Funds:— *(To be detailed.)*			4. ,, Investments in respect of Unexpended Income:—		
5. ,, **Income and Expenditure Account*:— *Balance at Jan.* 1, 19 .. .. *Add Excess for year to Dec.* 31, 19			5. ,, Land, Buildings and Equipment of the Hospital:— *(State separately where practicable.* Expenditure from 19 to Dec. 31, 19 .. .. .. Expenditure during the year ending Dec. 31, 19		
	£			£	

* Note.—This Account will be stated on the other side should it show a deficit.

Memorandum.

If amounts have, by due authority, been lent to the Hospital out of any of its other funds to General Purposes Fund, the loan should appear as a liability on the left-hand side of the Balance Sheet, and as an Investment of the Fund on the right-hand side.

The Investments of the Funds should be set out on the Balance Sheet in detail, or, if numerous, should appear in a Schedule, to which reference should be made in the Balance Sheet.

If the Hospital has landed property or estates, their cost, and the Funds with which they were acquired, should be stated in the Balance Sheet; but in many cases this is impossible, either because the estates themselves have been given without valuation to the Hospital, or because the necessary information is not now available, and the same difficulty may occur in the case of the Site, Buildings or appliances of the Hospital itself; in which cases the following note, or a modification thereof, will be necessary:—

> The following property is not included in the Balance Sheet—(*a*) The Site, Buildings, Furniture, and Appliances of the Hospital, or (*b*) Landed Property and Estates, particulars of which are set out in Schedule page .

In the case of landed property or estates an Account should, however, be published, showing the year's Income received from the Property, and the Expenses of Management and Collection, &c., leaving a balance to be carried to the Income and Expenditure Account, or to a Special Fund, as the case may be.

This form is reprinted by permission from p. 19 of the uniform system of Hospital Accounts as revised and adopted by King Edward's Hospital Fund for London, the Metropolitan Hospital Sunday Fund, and the Hospital Saturday Fund (second edition, February, 1909), published by George Barber, 23, Furnival Street, Holborn, London, E.C. Full explanations will be found in the above-mentioned publication.

(b) Columnar Cash Book.

It is very convenient for Charitable Institutions to have Cash Books ruled in such a way that the subscriptions and donations, &c., can be posted in total instead of in detail, thus saving considerable labour in book-keeping.

The following is a convenient ruling, and is equally suitable for a Hospital as well as for other Charitable Institutions.

It may be necessary, however, in the case of Hospitals, to have an additional column on the debit side for "Patients' Payments."

The columnar system can be extended to the credit side of the Cash Book where desirable.

ILLUSTRATION—

Dr. CASH BOOK. *Cr.*

Date.	Particulars.	Voucher No.	Folio.	Subscriptions.	Donations.	Sundry Receipts.	Bank.	Date.	Particulars.	Voucher No.	Folio.	Details.	Bank.

(c) Subscription Register.

As the Revenue of most Charitable Institutions is dependent upon voluntary contributions, consisting of annual subscriptions and donations, it is very essential to keep a Register showing at a glance the names and addresses of the annual subscribers, with the amounts promised. The particulars contained in this Register render comparison with the annual subscriptions comparatively easy, and to a certain extent acts as a check upon their collection. Moreover, the published list of subscriptions can be very easily prepared therefrom.

The following is a convenient ruling :—

ILLUSTRATION—

SUBSCRIPTION REGISTER.

Name.	Address.	1912		1913		1914		1915		1916	
		Date rec'd.	Amount.	Date rec'd.	Amount.	Date rec'd.	Amount.	Date rec'd.	Amount.	Date rec'd.	Amount.

(d) Purchase Journal.

In nearly all Hospitals a specially ruled Purchase Journal is essential, to enable the Governors or Trustees to know each month the totals of the goods purchased, and the analyses of the same. The classification of purchases should be such as to comply with the King Edward's Hospital Fund requirements.

The following is a convenient ruling, which can be modified according to circumstances :—

ILLUSTRATION—

PURCHASE JOURNAL.

Date.	Name.	Particulars.	No. of Invoice.	Folio.	Total.			Provisions.			Surgery and Dispensary.			Domestic.			Establishment.			Miscellaneous.			Repairs and Building Improvements.		
					£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

§ 16.—Treatment of Share Profits.

In the case of Finance Companies which are concerned with the promotion and flotation of other Companies, a considerable portion of the consideration for sale usually takes the form of Shares in the New Company fully paid up. In many cases the Shares so obtained are not quoted on the Stock Exchange, or if so quoted the price is an artificial one, and has no relation to their actual value. The best method of entering these transactions in the books of the Finance Company is to bring these Shares in at cost, such cost being the difference between the expenditure on the promotion and the portion of the consideration for sale received in cash. If the Shares are not worth this cost value, reserve should be made accordingly.

The principle of bringing these Shares into the Company's books at a valuation made by the Directors, or at their par value, is much to be deprecated, even though corresponding reserves may be made against such values, since this has the effect of making the position appear to be much stronger than is actually the case. Moreover, such reserves, if shown on the liability side of the Balance Sheet, may be manipulated improperly in future years

When any of the Shares are sold, the profit or loss on realisation should be adjusted. In these transactions only realised profits should be distributed in cash dividends, due regard being had to the adequacy of the reserves against loss on realisation of the shares remaining unsold.

An alternative method to bringing these shares in at cost is to include them at their par value, and show the Profit and Loss Account in two columns relating to Cash and Shares respectively ; the balance on the Cash column showing the Cash Profit or Loss during the period, and the balance on the Share column showing the Share Profit. In cases where it is proposed to distribute the dividend in scrip, this method is certainly the most convenient.

In any event the principle on which these Shares have been dealt with should be clearly disclosed by the Accounts.

SYNOPSIS OF CHAPTER XV.

INTERNAL CHECKS.

§ 1.—THE NECESSITY OF A SOUND SYSTEM OF INTERNAL CHECK.

2.—DEFINITION OF INTERNAL CHECK.

3.—CLASSIFICATION OF INTERNAL CHECKS.
- (*a*) Physical Checks.
- (*b*) Mechanical Checks.
- (*c*) Theoretical or Intellectual Checks.

4.—CASH.
- (*a*) General Cash Receipts.
- (*b*) Travellers' Remittances.
- (*c*) General Cash Payments.
- (*d*) Authority for Payment, trade or otherwise.
- (*e*) Wages.
  - (1) Time-Workers.
  - (2) Piece-Workers.
  - (3) Time-Workers' Wages Sheets.
  - (4) Piece-Workers' Wages Sheets.
  - (5) Payment of Wages.
- (*f*) Petty Cash.

5.—THE LEDGERS.
- (*a*) General Index to Ledgers.
- (*b*) Distinguishing Labels.
- (*c*) The Sub-division of Ledgers.
- (*d*) Loose-leaf Ledgers.
- (*e*) Sectional Balancing.
- (*f*) Statements.
- (*g*) Press Cuttings Index.
- (*h*) Bad Debts.

6.—PURCHASES.

7.—PURCHASE RETURNS.

8.—SALES.

9.—SALES RETURNS.

10.—PACKAGES AND EMPTIES.
- (*a*) Packages charged up.
- (*b*) Packages not charged up.

11.—COST ACCOUNTS.

12.—STOCK.
- (*a*) Valuation.
  - (1) Raw Materials.
  - (2) Goods in Course of Manufacture
  - (3) Finished Goods.
- (*b*) Method of Stock-taking.

CHAPTER XV.

INTERNAL CHECKS.

§ 1.—The Necessity of a Sound System of Internal Check.

It is of the utmost importance that every business should have in operation a sound system of Internal Check.

There are two reasons for this :—

(1) From the point of view of the business.

It is imperative that the duty of each clerk should be clearly defined, and his work properly supervised ; so that the business in question may cope with its current transactions promptly and exactly, expand its connection without disorganisation, and trade under the advantage of method and system such as will guarantee clockwork regularity.

Without system and order, success in business is well-nigh impossible, and any professional Accountant whose experience extends to liquidation and bankruptcy work will bear witness to the truth of this statement.

(2) From an Auditor's point of view.

The practical value of an audit very often depends largely upon the merits of the system in operation, because there are many instances where a deficiency of organisation or method cannot be made good even by the most skilful investigation of accounts.

§ 2.—Definition of Internal Check.

The phrase " Internal Check " indicates some system of organisation aiming to secure as far as possible :—

(1) Accuracy of all records contained in all the books, including those outside the double entry.

(2) Correctness of book-keeping.

(3) Speedy detection of fraud, and thus the prevention of fraud.

If the work is soundly organised upon scientific and economical principles, the attainment of these objects can only be defeated by collusion between the members of the staff.

§ 3.—Classification of Internal Checks.

Internal checks may be classified into three distinct groups, under the headings of "Physical," "Mechanical," and "Theoretical or Intellectual" checks, and a complete system may consist of all or any of them.

(a) Physical Checks.

These are brought about by the actual operation of one material thing upon another, in which operation at least two persons are concerned.

Examples :—

(1) Two keys held by different persons, without both of which keys a safe or deed box cannot be opened.

(2) A Time-recording Clock.

(3) A Cash Register.

In the case of a time-recording clock or cash register, a responsible person alone should have control of the records contained therein, to which the persons operating the machine should have no access.

(b) Mechanical Checks.

These are brought about by machinery of infallible or certain action, operated by one person.

Examples :—

(1) A Calculating Machine.

(2) An Elliott Fisher Typewriter.

In the operation of either of the above only one person is concerned, but, as explained subsequently, these checks may satisfactorily form part of the general system of internal check.

(c) Theoretical or Intellectual Checks.

These are brought about by one or more persons performing or abstaining from performing certain portions of the work, in accordance with a defined plan.

Examples :—

(1) Two clerks calling over the postings of a Ledger in which they have made no entries.

(2) A Cashier abstaining from making entries in any of the Ledgers.

Theoretical checks are the most important of the three classes from the point of view of the science of accounting.

The general system of internal check should extend to cover every transaction which the business enters into, whether this involves Cash, Securities, Bills, Stock, Purchases, Sales, Returns, Wages, or any other class of dealing. The system should be complete in itself, automatic in its working, and in no way dependent upon the audit.

To many persons it may appear that the system here advocated would involve expenditure wholly out of proportion to the benefits obtained, and prove in its operation extravagant to the particular business, but this is not the case.

It is, of course, essential in these days of growing competition to keep the working expenses at as low a level as is consistent with efficiency, but it is quite possible for a business, without in any way increasing its staff, to so arrange the work of each employee that an efficient system *ipso facto* comes into operation. Further, it should be noted that the most up-to-date firms always pay particular attention to the perfection of their internal organisation, and these are the very firms that work on the most economical lines. Good management pays for itself over and over again, by preventing waste, overstaffing of the business, and fraud ; to say nothing of clerical errors and dishonesty on the part of the employees, both as to their work and as to monetary matters. As regards the latter, the knowledge of certain detection in a very short space of time is in itself a great moral check, which has a very salutary influence over the whole staff.

The subject has been dealt with in the following pages as affecting a manufacturing business, since this affords the widest application of the principles involved.

§ 4.—Cash.

Dealing firstly with the cash and the cashier's duties, the system of internal check controlling the same should be most complete, and the following is a suggestion which has satisfactorily stood the test of practical application.

The chief duties of a cashier should be as follows :—

(1) To take charge of all cash receipts, and see that they are paid into the bank daily.

(2) To make all payments, with the exception of petty cash disbursements.

(3) To pay the wages.

(4) To write up the Cash Book, and reconcile the same with the Bank Pass Book at least monthly.

(5) To make no entries whatsoever in any Ledger, or in any of the books of prime entry (particularly the wages book).

(a) General Cash Receipts.

(1) Each morning the letters should be opened by the Secretary of the Company, or some other responsible official, who should immediately stamp all cheques, postal orders, and other remittances with an indiarubber stamp, giving the name of the bank with which the firm deals, the name of the account, and the words "Not negotiable," so as to render the remittance valueless to anyone save the firm itself.

(2) The responsible official should then call these remittances to a clerk, who should enter the same in a diary, and after they have been checked the diary should be initialled by both parties.

(3) The remittances should then be handed to the cashier.

(4) A clerk who has had nothing to do with entering the remittances into the diary should take that book, and make out counterfoil receipts where necessary. (This is not usually done, however, in the case of travellers' remittances.) The same clerk should also make out the counterfoil of the Paying-in Book.

(5) Each day the cashier should take the cheques, postal orders, &c., received during that day, and type particulars thereof by means of a calculating machine on the other half of the Paying-in Book, getting the total automatically, which should, of course, agree with the total arrived at by the clerk who entered up the counterfoil portion of the book. In this way a mechanical check is successfully introduced into the general system of internal check.

(6) A clerk having taken no part in the previous operation should then take the remittances to the bank.

From the above it will be seen that, subject to any adjustments (such as, for instance, with regard to post-dated cheques), the daily cash receipts are made up and agreed three times, viz. :—

(1) With the total of the Diary.

(2) With the total of the Paying-in Book as made out by the clerk.

(3) With the total of the Paying-in Book as made out by the cashier with the calculating machine.

(b) Travellers' Remittances.

As a general rule, the customers of the firm should be requested to forward remittances direct to the Head Office of the business, and the system of sending round travellers to collect debts should be resorted to only in special cases or under special circumstances. It generally happens, however, that there are reasons why the debts of certain customers should be collected by travellers, and consequently special precautions have to be taken to see that all cash collected in this way is properly accounted for.

The following are a few of the more important points to be noted in order to bring these travellers' remittances under the general scheme of internal check :—

(1) A guarantee policy of insurance should be taken out for each traveller.

(2) The authority of each traveller for collecting debts should be strictly limited to cases where arrangements have been made that he should do so, and to cases where he receives special instructions from the Head Office. The limit of credit given to these customers should be definitely fixed and enforced.

(3) Each traveller should be allotted two counterfoil receipt books for alternate weeks, and when remitting the same to the Head Office at the end of each week, he should enclose a statement showing particulars of the cash collected during that week. The cash should be remitted daily by the traveller, together with a short statement showing from whom it was collected.

The travellers should not be allowed to deduct their expenses from the amounts collected, but should send in periodically a statement to the Head Office, showing full particulars of these disbursements. The Head Office, after checking such statements, should forward to the particular traveller a special cheque therefor.

As an additional safeguard, some firms treat the receipts given by the traveller as interim receipts, and arrange for a formal receipt to be sent subsequently from the Head Office. This is, however, duplicating the work, and, although an excellent check, is not often adopted in practice.

(4) The cash when received by the Head Office will pass through the Diary in the ordinary course, and will be paid into the bank as described in the paragraph dealing with general cash receipts.

(5) The Head Office should carefully watch all the accounts where the remittances pass through the hands of travellers; and if any of such accounts are not promptly settled in accordance

with the terms of credit, application should at once be made direct from the Head Office.

(6) A clerk other than the cashier should check the weekly statements of the various travellers with the counterfoil Receipt Books, also with the Ledger Accounts, seeing that the amounts are correct, and actually represent payment for goods delivered. It will be necessary to check these statements also with the Cash Book, in cases where the cash has not yet been posted to the Ledger. The clerk doing this work should initial each statement when it has been completely checked.

(c) General Cash Payments.

As a general rule, all cheques should be crossed " & Co., A/c Payee only—Not Negotiable," in order to render them valueless to all except the firm to whom the payment is made.

Receipts should be required for all payments, except wages, but including salaries of clerks, and directors' fees if the business is a limited Company.

The Cheque Book should be kept under lock and key, and the cashier who draws the cheques should under no circumstances be given the procuration of the firm for the purpose of signing cheques.

The following are points to be noted in dealing with the cash payments :—

(1) All payments should be made by cheque, and there should be a fixed day set apart fortnightly or monthly for the payment of accounts.

(2) As soon as the cashier receives the various statements for payment, he should go to the invoice file (where the invoices entered in the Day Book should be placed in alphabetical order), and take out those invoices referring to the particular statement under consideration. He should most carefully note that proper

references and initials are shown upon these invoices, and should check the same with the statement, deducting therefrom the proper discounts allowed. The invoices should then be fastened to the statement.

(3) The cashier should refer to the account in the particular Bought Ledger concerned, to see that the amount agrees, subject to cash discount, with the statement. He should also see whether there is any contra account in any of the Sold Ledgers, and, if so, he should deduct the amount due to the firm from the amount shown on the statement to be due by the firm.

(4) The statement is then in order, and the cheque can be drawn. The director or partner signing the cheque has thus all the information before him to enable him to ascertain exactly the goods in respect of which the cheque is payable.

(5) The receipts should be dealt with by a separate clerk, and not by the cashier ; and they should be filed away in the order of the Cash Book, with the statement and invoices attached, marked with a number corresponding to that shown against the entry of payment in the Cash Book.

(6) It is useful to show against each payment in the Cash Book the number of the cheque in red ink, so that the same can be traced with facility if necessary.

It will be seen from the above that this method of dealing with invoices is excellent from the point of view of the business itself, although from an Auditor's point of view it is not possible to vouch the Purchase Day Book with the same readiness as if the invoices were filed in consecutive order. However, it should not be difficult to thoroughly test, and, if necessary, to entirely check these invoices with the prime entries, because the Day Book references should be clearly marked upon the invoices.

As regards vouching the cash receipts, the system will be found extremely satisfactory to the Auditor.

(d) Authority for Payments, Trade and otherwise.

Only certain responsible officials should be permitted to sanction the payment of trade accounts ; and, in every case where such sanction is given, the initial of the responsible official passing the account for payment should be appended to the account, in addition to that of the cashier and other persons who may have assisted in the checking of the account.

Where exceptional payments are concerned—such as Gifts, Charitable Donations, Commissions and the like—the authority for passing the same should be reserved by the principals of the business, or only delegated under very exceptional circumstances. In the case of a Limited Company, a Minute of the Board is very desirable to sanction large payments of this nature.

(e) Wages.

A very large percentage of the defalcations which are brought to light in the case of manufacturing concerns have their origin in the payment of wages. Consequently it is of great importance to have a thoroughly sound system of Internal Check in operation, and in order to prevent collusion, as many clerks as may be found convenient should be engaged in the preparation, checking and re-checking of the Wages Sheets. Too much emphasis cannot be placed on this, as time after time clerks who have enjoyed the fullest confidence of their employers, and who have been unwisely entrusted with almost the entire responsibility of paying the wages, have proved themselves unworthy of their fiduciary position.

There are two points in connection with the wages which should be noted :—

(1) That the audit of the Wages Sheets is, in the majority of cases, of little value unless a sound internal check is in operation.

(2) That, however perfect the internal check may be, a great moral responsibility rests with the employers or chief officers of the business to see that the system is properly carried out in all its details.

The following system embodies the various points enumerated above :—

(1) *Time-Workers.*

There should be either a gate-keeper or time-recording clock to record the exact times of workpeople entering and leaving the business. The foreman of each department should also record the time of workpeople entering and leaving the shops. The work performed by each workman should be entered up daily by him on a card, and this card should be initialled by his particular foreman.

The time records of each foreman, together with the gate record, should be sent to the counting-house daily.

There are a number of time-recording clocks upon the market. Most of these are fitted with records not accessible to the workman, except to the limited extent which enables him to enter his times. Such machines, therefore, fall within the category of "physical" checks.

(2) *Piece-Workers.*

Times should be recorded as above, in order to ensure punctuality. The work performed by each workman should be entered by him on a card, as in the case of time-workers, and this should be initialled by the foreman or viewer for piece-work, and will form the basis of the wages. All the cards, both for time- and piece-workers, should be passed through the Work in Progress Office, so that the wages can be properly allocated over the various accounts in the Cost Ledger.

The particulars contained on the piece-workers' cards, having been checked in the Work in Progress Office, should be summarised, and the summary sent to the counting-house daily

There should be a separate Wages Sheet for both time- and piece-workers, and the procedure for compiling these, after the

above-mentioned records have been received in the counting-house, should be as follows :—

(3) *Time-Workers' Wages Sheets.*

(1) Two clerks should compare each foreman's Time Sheets with the record obtained at the gate. This work should be performed daily.

(2) Another clerk should enter upon the Wages Sheets the names, rates of pay, particulars of any deductions, and the number of hours worked by each man daily. These particulars should agree with the foreman's Daily Time Sheets.

(3) A Time Summary Book should be kept, showing the total amount of time worked by each man employed during the week. This book should be sent to the counting-house at the end of each week, and each man's time agreed in total with the Wages Sheets as to the number of hours worked. If the two cannot be reconciled, it may be necessary to check in detail the time of each man in order to effect an agreement.

(4) A separate clerk should work out and enter up the net amount due to each man, and cast the sheets.

(5) Another clerk should check these calculations.

(4) *Piece-Workers' Wages Sheets.*

(1) The cards allotted to piece-workers should be readily distinguished from those of time-workers.

(2) As each piece-worker completes his portion of the work upon a certain number of articles, the same should, where possible, be taken to the storekeeper, who should record particulars thereof and give out to the next workman concerned. If the articles are completely finished, they should be taken into store.

(3) The cards (which should contain full details of the work done and bear the initial of the foreman or viewer) should be summarised by the clerks in the Work in Progress Office, as already stated.

The summary should be sent to the counting-house, signed as correct by the persons responsible for its compilation, and countersigned by the manager of the Work in Progress Office. A counting-house clerk should check the summary with the storekeeper's record of goods taken in, and should initial the same as correct, if found to be in order.

(4) The Wages Sheets should then be prepared from the summary, the procedure in entering up, checking calculations and re-checking being carried out upon the same lines as those already described in the case of Time-Workers' Wages Sheets.

(5) *Payment of Wages.*

Each man concerned in the preparation of the Wages Sheets should sign for the work he has done, and finally they should be countersigned as a whole by the manager, a partner, or a director.

The payment of the wages should be made by the cashier, who should have had no connection with the work described above. He should check the additions of the sheets, and should analyse the total amount into sovereigns, half-sovereigns, silver and copper, and should then draw a cheque for the exact amount required. The wages should be paid by the cashier, in the presence of a responsible person able to identify the men. Each man should attend personally to receive his money, special arrangements, which should be rigidly adhered to, being made for absentees.

As a general rule it is not possible to obtain receipts for wages, but the signatures of the cashier and the responsible person in whose presence the wages are paid are usually considered sufficient evidence of payment.

After the payment of wages the cashier should account immediately for wages not disbursed.

(f) **Petty Cash.**

In every manufacturing business the amount of cash passing through the petty cashier's hands should be reduced to a minimum, and confined entirely to those cases where the payment cannot conveniently be made by cheque. The Petty Cash Book should be ruled in columnar form,

and the columns headed according to the particular requirements of each case. There should always be a Ledger column, however, which should be used for special items for which there is no specific subsidiary column, and this should have a folio column attached, so that the entries of a special nature can be posted in detail to the debit of the particular accounts to which they refer.

The totals of the other columns should be posted monthly or quarterly, after the entries in the book have been thoroughly checked. The Petty Cash Book thus becomes in effect a Ledger Account as well as a book of prime entry, and the balance representing cash in hand should be taken into the General Trial Balance

The following points should be noted and carried out, so as to include the petty cash in the general system of internal check :—

(1) The petty cashier should be a responsible clerk.

(2) No payments should be made unless the demand is accompanied by a proper voucher signed by the payee, and duly approved by a responsible official.

(3) Each week the Petty Cash Book should be checked, and the cash in hand counted by a responsible official.

(4) The only items of Petty Cash Receipt should be those drawn from the General Bank Account for that purpose, all other sums received by the business, however small, being paid direct into the Bank, and dealt with through the General Cash Book.

(5) No clerk should be allowed to borrow cash from the Petty Cashier under any circumstances.

§ 5.—The Ledgers.

The general system of Internal Check is brought to bear upon the various Ledgers as follows :—

(a) General Index to Ledgers.

Each Ledger should, of course, contain a comprehensive index, which should be kept strictly up to date, and each Ledger clerk should be held responsible for this being carried out, so far as the Ledgers under his control are concerned.

It is, however, of very great convenience to have a General Index for all the Ledgers, showing clearly in which Ledger any particular account is open, and the folio in that Ledger. This general index should also contain the correct postal address of each customer of the firm. It should be kept absolutely up to date, and if this is done the advantages gained will more than counterbalance the trouble and labour involved.

(b) Distinguishing Labels.

All Ledgers should have some distinguishing letter, number, or name, so as to render them readily recognisable, and to save any waste of time in looking for accounts.

In order to further facilitate this, some firms adopt the plan of having the different groups of Ledgers bound in different coloured bindings, and with very satisfactory results.

The Ledgers should be of moderate size; for although the labour of opening and spacing Ledgers is considerable, the inconvenience and weight of bulky books of account is to be avoided wherever possible.

(c) The Subdivision of Ledgers.

No general rule can be given for the subdivision of Ledgers, as this in every case must depend on the circumstances and the convenience of the firm in question.

The following, however, are a few of the points which should be taken into consideration:—

(1) The Town Accounts should be kept distinct from the Country Accounts.

(2) Both the Town and the Country Ledgers should be again subdivided to a certain extent over the districts covered by the various travellers.

(3) The Accounts with foreign firms should be collected into a special Foreign Ledger, and if these transactions are very numerous, and extend to several different foreign countries, it may be wise to have a separate Ledger for each country.

(4) All Impersonal Accounts should be collected into an Impersonal Ledger, and the Private Ledger should only contain accounts of a strictly private nature. This is important, as only certain responsible officials will have access to the Private Ledger, and it will be their duty to write up the same ; and it is, of course, absurd to burden such persons with detail which can be quite properly allocated to others.

(5) The convenience of the counting-house in the matter of the posting up and checking of the Ledgers should be given the fullest consideration.

(d) Loose-leaf Ledgers.

Loose-leaf Ledgers are now being used by a very large number of firms, and it is impossible to overlook the advantages which they have over ordinary Ledgers. The system carries with it certain disadvantages, however, but with careful management these can be minimised. It should be noted that each page in these Loose-leaf Ledgers must contain both the debit and credit sides, and consequently it is not always possible to bring such Ledgers into use.

The following rules should be rigidly enforced to enable the system to be introduced with comparative safety :—

(1) The keys should be under the sole control of the Secretary, or some other responsible official, and he should never, under any circumstances whatsoever, hand over such keys, even temporarily, to any Ledger clerk.

(2) The stock of loose sheets should be kept by the clerk in charge of the stationery store cupboard, and no sheets should be given out by him except in exchange for a requisition order, properly made out and approved by the Secretary or other responsible official.

(3) The sheets should be ruled and printed in some way to render them different from the stock article supplied by stationers.

(4) Each Ledger clerk requiring new sheets should, after having filled in a properly approved requisition order, bring the sheets thus

obtained to the Secretary, who should unlock the Ledger and see that the sheets are properly inserted, and also that the Ledger is re-locked.

(5) No sheets should be taken out of any Ledger until after the matter contained in such sheets has been proved and passed by the Auditor.

(6) The Secretary or other responsible official, in addition to the particular Ledger clerk, should initial all sheets taken out of the Ledgers.

(7) All sheets so taken out should be filed away in proper order.

(e) Sectional Balancing.

This subject has been fully dealt with in Chapter IX.

(f) Statements.

Statements should be sent out periodically to customers, and it is desirable that these should be made out and checked, where possible, by clerks not concerned in writing up the Ledgers. The importance of these Statements will be readily conceded when it is remembered that, in addition to acting as an intimation that a remittance is required, they will also bring forward an immediate protest from customers who have not been given credit for cash already paid.

(g) Press Cuttings Index.

All cuttings from trade papers and journals, likely to be of interest and value, should be collected and pasted into an index, arranged so as to enable any required information to be ascertained at a moment's notice.

Should the index contain any notices affecting open accounts in the Ledger, particular attention should be paid to the same, and if the credit of any such firm is on that account questioned, a copy of the cutting should be made and pinned to the account in the Ledger, to prevent the matter being overlooked. By this means Bad Debts are often avoided.

(h) **Bad Debts.**

No amounts should be written off to Bad Debts Account without being first sanctioned by some responsible official, who should initial the journal entry dealing with the matter.

Many firms adopt the principle of opening a Bad Debt Ledger, and as each bad debt is written off an account for the same is opened in the Bad Debt Ledger. This Ledger need not form part of the double entry, being purely a memorandum book, but is useful to show the business the ultimate loss incurred in respect of each bad debt.

All bad debt dividends received should be credited to a Bad Debt Dividend Account, and taken to the credit of the period in which they are received. These amounts should also be entered on the credit side of the particular account in the Bad Debt Ledger, and the ultimate balance of each account will then show the exact loss which the firm has sustained in each case.

§ 6.—Purchases.

A complete system of internal check should ensure the inclusion and accuracy of all the prime entries. The following procedure dealing with Purchases from the issue of the order to the entry in the Day Book, if carried out, will guarantee this result :—

(1) Only certain responsible officials should be authorized to sanction the ordering of goods.

(2) The official order should be initialled by the responsible official authorizing the same before it is sent out.

(3) All goods coming in should be entered in a Goods Inwards Book kept for this purpose by the gate office foreman.

(4) As soon as the invoices for the goods purchased are received, they should be handed to the invoice clerk.

(5) The invoice clerk should check the details of each invoice with the Order Book, and see that it is correct, and should also ascertain that the number of the order is clearly shown on such invoice.

(6) The invoice clerk should enter on each invoice the reference to the Goods Inwards Book, and should mark in red in this book the number of the particular Day Book, full reference thereto being entered subsequently. This procedure should prevent duplicate invoices being dealt with as originals.

(7) The invoice clerk should thoroughly check each invoice, and initial therefor.

(8) The invoice should be sent to the particular department from which the goods were ordered, and the manager of this department should initial same, thereby signifying approval as to quality, price, &c.

(9) The invoice clerk should enter each invoice in the Purchase Day Book, and extend the item to the proper departmental column.

(10) The invoices should be called over to the Purchase Day Book, and filed until required by the cashier.

§ 7.—Purchase Returns.

Upon the return of goods purchased, the departmental manager should send an Advice Note and Pass Requisition to the counting-house, the Advice Note containing full details concerning such goods.

The Secretary should issue the Pass and hand the Advice Note to the invoice clerk, who should check same with the original invoice, and make an entry in the Bought Returns Book. This entry should be checked, and the Advice Note, attached to the invoice, filed so that the cashier must deal with both simultaneously.

If the original invoice is already paid, the invoice clerk should pass the entry through the Bought Returns Book, and should obtain a credit note therefor, which should be placed with the invoices not paid, so that a deduction can be made from any subsequent payment.

It should be noted that no goods can leave the premises (apart from those in the Sales Order Book) without a Pass from the counting-house.

§ 8.—Sales.

Following the general scheme, the procedure for dealing with Sales from the receipt of the order to the entry in the Day Book should be as follows :—

(1) Immediately the order is received, particulars thereof should be entered in a Diary.

(2) Full details of the order should be entered in a manifold Order Book, the one sheet being retained in the book, and the other being sent to the gate office foreman.

(3) The gate office foreman should enter up the particulars of each order in the Warehouse Memoranda Books, and the warehouseman should send out the goods accordingly.

(4) The gate office foreman should keep a special Gate Book, in which he should enter details of all goods going out of the factory, and he should check the entries in this book with the duplicate sheets from the Order Book.

(5) The gate office foreman should attend each morning at the counting-house, and should call over the orders fulfilled during the previous day with the invoice clerk, who should mark off the same in the Order Book. As these are re-checked, the gate office foreman should cancel the duplicate sheet of the Order Book.

(6) The invoice clerk should extend the prices in the case of orders marked off in the Order Book, and these should be independently checked, both parties initialling for such work. The orders not checked off will represent the orders unfulfilled, and the invoice clerk should not allow these to remain open for more than two days without calling attention to the same.

(7) The invoice clerk should type the invoice and entry in the Day Book simultaneously. A typewriting machine is now on the market which enables this to be done, and which also automatically adds up the total of each page of the Day Book. Consequently, all that is necessary to do is to check the casts of

the Day Book, and once more a mechanical check is successfully introduced into the general system of internal check.

(8) The invoices should be called over with the Order Book, and, as each one is verified, the entry in the Order Book should be distinctly marked through, so that any orders not invoiced will remain open and be readily distinguished.

(9) The correctness of the details in the Sales Day Book are thus, *ipso facto*, proved.

§ 9.—Sales Returns.

Goods returned by customers should be entered by the gate office foreman in a special Returns Inwards Book upon receipt. He should enter particulars thereof in a counterfoil Receipt Book, which should be sent daily to the counting-house to be checked. Where credit has to be given for these goods, the detachable part of the counterfoil Receipt Book should be filled in, checked, and sent to the customer. The counterfoil Receipt Book should then be passed on to the clerk, who makes the entry in the Sales Returns Day Book.

All credit notes should be approved and initialled by a responsible official before despatch.

§ 10.—Packages and Empties.

The method of dealing with packages depends on whether they have been charged out to the customers or not, and whether they are returnable or not.

A Packages Account should be in existence which should be debited with the opening stock of packages at stock value, and with all purchases of packages.

Where the empties are not returnable, the charge for the package should be included in the price of the goods, and consequently any profit made on the package will be included in the sales. Where, however, empties are returnable, they should be charged up to the various accounts

whenever possible, but it sometimes happens that customers are in a position to object, and absolutely refuse to allow this procedure to be adopted, and in consequence some other scheme has to be devised.

The following is a suggestion for the treatment of packages in both cases, on the assumption that the empties are returnable :—

(a) Packages charged up.

There should be a special column in the Sales Day Book, to record the amount to be charged up in respect of packages. The account of each customer will thus be debited with the value placed on the packages, and the total of the packages column in the Day Book should be posted, not to the credit of Sales Account, but to the credit of a Packages Reserve Account. As the empties are received back, particulars thereof should be entered in an Empties Journal, which should be posted in detail to the credit of the particular customers, and in total at the end of each month to the debit of the Packages Reserve Account.

If credit is allowed on the empties returned to the full extent of the amount charged up therefor, the credit balance on the Packages Reserve Account should represent the amount charged up for packages outstanding, and this figure should be deducted from the debtors in the Balance Sheet.

It should be remembered that these packages are usually charged up at a higher rate than cost price, and in many instances when they are returned credit is only given for the cost price. In this latter case, an actual profit is made on the empties, which should be transferred from the Packages Reserve Account to Packages Account. Where customers retain packages and pay for the same, an adjusting entry should be made, debiting the Packages Reserve Account and crediting Packages Account.

Full particulars of the returned empties should be made by the gate office foreman, and recorded in a counterfoil Credit Note Book. This book should be sent daily to the counting-house, and called over with the Ledger Accounts. Immediately the items are proved a credit note should be made out, and after this has been checked and initialled it should be sent to the customer concerned.

The counterfoil portion of the book should then be handed to the empties clerk, who should write up the Empties Journal therefrom.

Empties on hand and in the hands of customers should be valued at cost less adequate depreciation, this stock figure being credited to the Packages Account and brought down as a debit balance: any difference on this account being then written off to Profit and Loss Account in the usual manner.

(b) Packages not charged up.

There should be special columns ruled in the Ledger to record the identification number of each package sent out but not charged up. The number should be entered on the invoice and in the Day Book, and reference thereto made in the Package Number column on the debit side of the particular account in the Ledger at the time when the posting of the sale is made.

As the empties are returned, full particulars thereof should be recorded by the gate office foreman, as explained previously. It will not be necessary, however, to send out credit notes, nor will any entries be made in the Empties Journal. The gate office foreman's book should be called over with the various accounts in the Ledger, and as each entry is checked the particular number of the package should be entered in the Package Number column on the credit side of the Ledger Account.

The Ledger clerk should periodically examine the Package Number columns in the Ledger, and cross out the numbers corresponding on the debit and credit sides. The remaining numbers should then represent the packages still in the hands of customers.

Proper Stock Accounts should be kept for the packages, and the balances of these accounts should show at a glance particulars of the packages in the factory, in the hands of customers charged up, and in the hands of customers not charged up. The stocktaking should be carried out without reference to these Stock Accounts, and compared with the balances on the Stock Accounts, any discrepancy being enquired into.

A Packages Account will be kept in the Ledger, and any difference thereon after adjusting the actual stock brought in at cost less adequate depreciation will be written off to Profit and Loss Account in the usual way.

§ 11.—Cost Accounts.

It is essential that proper Cost Accounts should be kept and agreed with the financial books. These show the exact cost of goods manufactured, and the management is enabled thereby to effect a strict control over expenditure, particularly in the case of wages.

A discussion of Cost Accounts in detail will be found in Chapter XI.

§ 12.—Stock.

Stocktaking is one of the most vital proceedings of a manufacturer's business, because an erroneous stock value directly affects the profits. This fact has been fraudulently acted upon in many instances, and was the method adopted to inflate the profits in the well-known case of the *Kingston Cotton Mills.*

The most important check that can be brought to bear upon such inflation, so far as an Auditor is concerned, is for him to ascertain the ratio between the gross profit shown by the Trading Account and the Sales for the period, after charging only such items of prime cost as vary directly with the turnover, and to compare with that of previous periods, inquiring into any fluctuation which cannot be readily accounted for. Where the manufacturer works for, and maintains, a fixed percentage of profit on cost, this is a perfectly reliable check, and in any case it is of considerable utility.

(a) Valuation.

Where complete Cost Accounts are kept and agreed with the financial books, it is necessary in taking stock to discriminate between :—

(1) Raw Materials.

(2) Goods in course of manufacture for Stock and Contract Accounts.

(3) Finished Goods.

(1) *Raw Materials.*

The cost of goods utilised in manufacture will have been passed through the financial books, so that the value of the stock of raw materials on hand should agree approximately with the balance shown on the Materials Account in the financial books; and after an independent valuation of the raw material has been made, a reconciliation between such value and the balance on the Materials Account should be effected. If the market value has gone down, an entry should be put through the books to adjust the balance on the Materials Account. The invoices for purchases will form a ready check as to the cost price of the goods.

(2) *Goods in course of Manufacture.*

The correct valuation of goods in the course of manufacture is essential in order to show the exact value of the work in progress upon each of the Manufacturing Cost Accounts.

It is impossible to lay down any hard-and-fast rules as to the method to be adopted in valuing these partly manufactured goods; but where a complete system of Cost Accounts is in operation, the various Cost Sheets, showing the exact cost of manufacturing goods at various stages, should form a satisfactory test of the value arrived at. The value put upon these goods should approximately agree with the balances on the various Manufacturing and Contract Accounts, and a reconciliation between the two should be made.

(3) *Finished Goods.*

The stock of these should be taken, and the total value should agree with the Stock Accounts. The various Cost Sheets will furnish particulars which will form a very satisfactory check on the valuation placed upon these goods.

(b) **Method of Stocktaking.**

The procedure for stocktaking should be as follows :—

(1) The stock should be taken immediately after the close of the last day of the period, and the basis of valuation should be cost or market price, whichever is lower.

(2) The work of stocktaking should be apportioned by allocating one person to call out the quantities and descriptions of the goods ; another to enter these particulars on the Stock Sheets ; another (who should be a responsible official) to enter the prices ; another to make the calculations and to cast the sheets ; and another to check these calculations and casts.

Each person should initial for the work done by him in connection with the Stock Sheets ; and, finally, the sheets should be signed as a whole by the chief manager, a director, or a partner.

All invoices referring to the period under review should be brought into account, particular care being taken to see that no stock is included unless the invoice referring to it has been actually passed through the financial books. On the other hand, where invoices properly referring to the period under review are received, but the goods in respect thereof are not received, such goods should be valued and brought into account as stock in transit. Goods sold but not despatched must, of course, be eliminated, and great care should be exercised to see that this is done. It will be necessary, however, to see that the sale in each case is properly recorded.

As regards stock at the docks, or in bonded warehouse at the date of stocktaking, it must be seen that the invoices in respect thereof are passed through the books, and that any charges paid out on such goods are properly dealt with, so that the correct valuation can be placed upon them.

No scheme of internal check can prove a success unless the chief officials of the business take an intelligent interest in its operation, and see that each step is systematically carried out.

In consequence a considerable moral responsibility rests with the heads of the firm, and it is their duty occasionally to supervise the cash and examine the balances, to be present at the payment of wages, and to examine carefully the main branches of the system in operation, in order that they may be in a position to introduce improvements wherever possible.

No system can ever remain sound unless it is constantly subjected to severe scrutiny, and, where necessary, adjusted to meet present-day needs.

INDEX.

A.

B.

C.

D.

E.

F.

G.

H.

I.

J.

K.

L.

M.

N.

O.

P.

Q.

R.

S.

T.

U.

V.

W.

University of Toronto
Library

DO NOT
REMOVE
THE
CARD
FROM
THIS
POCKET

Acme Library Card Pocket
Under Pat. "Ref. Index File"
Made by LIBRARY BUREAU